

Interim Results Presentation

19th November 2003



**NORTHUMBRIAN
WATER GROUP**

Sir Fred Holliday Chairman

Agenda

Financial Review

– **Chris Green**

Operational Review

– **John Cuthbert**

Questions & Answers

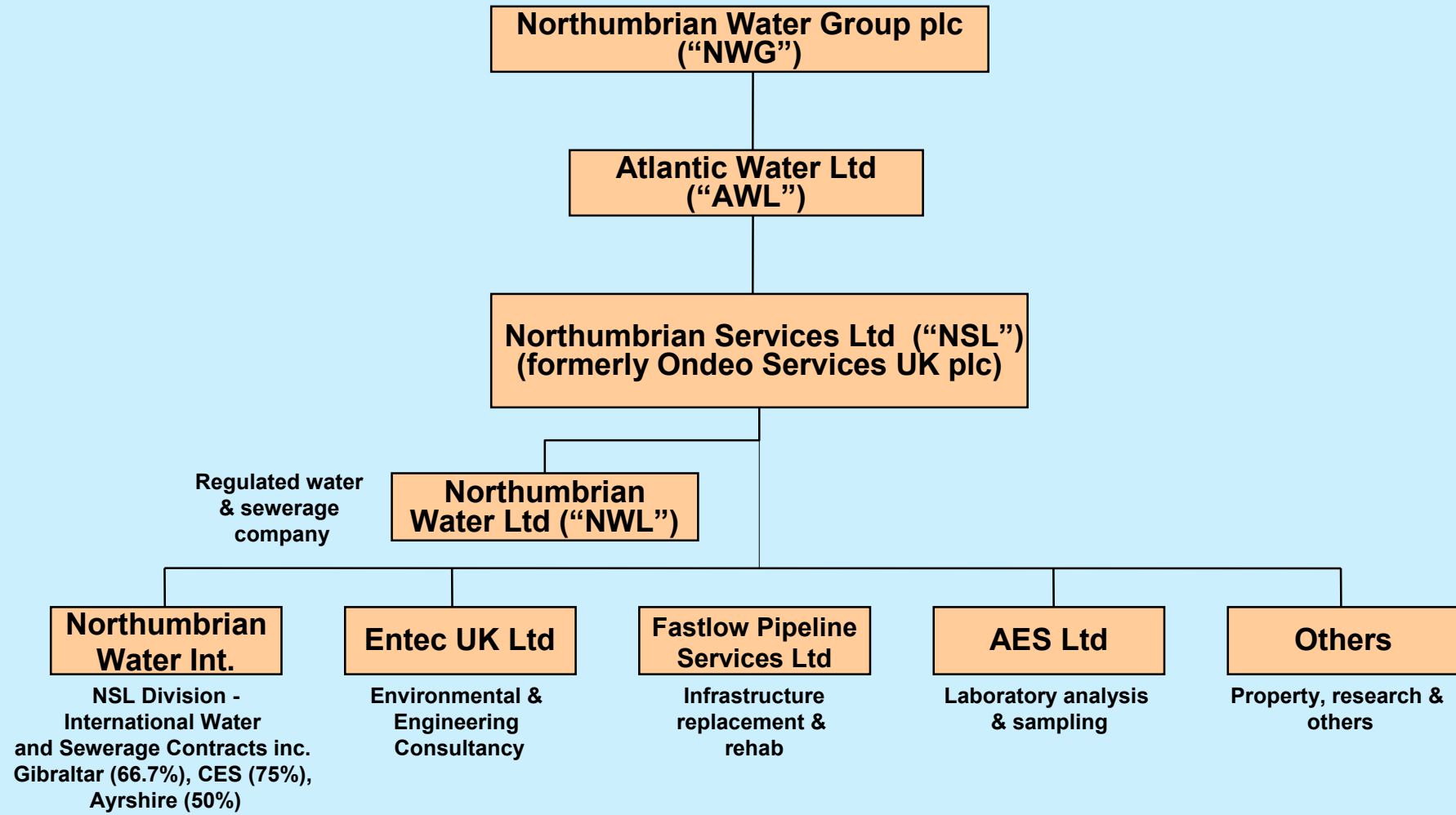


**NORTHUMBRIAN
WATER GROUP**

Chris Green

Finance Director

NWG Organisation Structure



Summary financial results



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- **Results reflect the period from 12th May, including four months trading from 23rd May**
- **Comparatives consistent for operating profit but do not reflect impact on interest / debt of new financial structure**
- **Income increases at NWL of £6.5m and at CES of £3.3m**
- **Cost increases at NWL of £5.9m and at CES of £2.3m**
- **Exceptional costs of £2.2m relating to sale / listing**
- **Operating profit stable, pre exceptional costs**

Summary financial results



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- **Interest costs increase by £18.5m due to:**
 - **£6m one off debt arrangement fees**
 - **£7.1m interest relating to £536m of new debt**
 - **£0.7m costs of short term facilities**
 - **£3.8m relating to NWL debt**
 - **£0.9m interest at Ayrshire BOOT, operational in 2003**
- **Current tax credit due to reversal of pre acquisition accruals**
- **Deferred tax credit reflects higher gilt rates since May**
- **Dividend reflects annualised 8.35% yield on initial £1 share issue**

Profit and loss



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- **NWL income increase of £6.5m:**
 - **Application of RPI of 2.65% in April 2003 amounts to £4m**

- **NWL cost increase of £5.9m:**
 - **Higher charge for leakage management**
 - **Higher costs of sludge treatment and disposal**
 - **Higher insurance costs**
 - **Higher depreciation linked to capital programme**

Balance sheet

- Net assets of NWG plc reflect the acquisition
- Net debt (before fair value) increased by £638.9m, reflecting £536m of new debt and the underlying increase at NWL
- Net investment in fixed assets of £114m, mainly at NWL
- Goodwill of £56m arising on acquisition after assessing fair values
- Fair value adjustments include:

	£m
- Increase in pension asset	12.7
- Increase in value of borrowings	(106.4)
- Increase in bad debt provision	(9.2)
- Increase in deferred tax	(5.1)

Cash flow

- Dominated by transactions relating to acquisition:

	£m
- Purchase of AWL by NWG plc	(889.8)
- Other net cash outflow	(8.3)
- Funded by:	
- Issue of new shares	368.5
- Net proceeds of new debt issues	194.7
- Utilisation of NSL cash reserves	<u>364.1</u>
- Leaving an increase in cash balance	<u>29.2</u>
• Working capital position improvement	8.9
• Capital expenditure reduction	10.0
• Interest payments increased	12.2

Debt profile

- Average maturity period of debt is 16.8 years
- Gearing for NWG plc is 77% of RAV (September 2003)
- Major debts and maturity profiles are:
 - EIB loans of £365.9m amortising over period to 2017, but could require repayment (change of control) April 2004
 - Deutsche syndicated loan of £205m repayable May 2005
 - NSL Eurobond of £200m at 8.625% repayable Feb 2006
 - Other bonds totalling £961.6m, maturing between 2017 and 2037, at rates varying from 5.625% to 6.875%

Credit rating

- S&P's downgraded NSL and NWL credit ratings 19th May:
 - £536m increase in net debt to fund acquisition
 - £380m of existing debt falls due in next five years
 - EIB waiver on £365.9m to be reviewed April 2004
 - Concerns over weaker cash flows and future tariffs
- NWG addressing these concerns:
 - Successful IDoK will increase income by £35m in 2004/5
 - Kielder securitisation expected to raise £200m +
 - Proceeds will repay £205m syndicated loan
 - Meeting with S&P's to review credit rating (post IDoK)
 - EIB will review waiver following S&P's rating review

Exceptional interest cost



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- **Exceptional interest cost relates to debt arrangement costs:**
 - **Deutsche arranged £536m short term loan for NWG to part fund the acquisition, maturing May 2005**
 - **£331m repaid in June 2003 from existing NSL cash**
 - **Arrangement fees for loan were £8.7m**
 - **Fees relating to £331m represent exceptional cost of £5.2m**
 - **Remaining fees are being amortised to May 2005**
 - **Further exceptional cost of £3.5m would arise on early repayment of the £205m**

Tax movements

- **£2.1m current tax credit cf £2.6m prior year charge:**
 - Tax credit due to reversal of pre acquisition accruals
 - 2002 tax charge reflected higher profits and no NWG loss
 - No tax charge expected in period to March 2004
- **£2.5m deferred tax credit cf £6.5m prior year charge:**
 - Underlying charge (pre discount): 2003 £7.5m; 2002 £9.4m
 - Tax losses at NWG in 2003 offset deferred tax of £2.3m
 - High discount in 2003 due to increase in gilt rates - £8.2m
 - Low discount in 2002 due to decrease in gilt rates - £2.9m

Key financial ratios

Financial ratio	NWL		
	NWG	NWL	Appointed
Gearing ratio (%)	77	60	58
Cash interest cover (x)	2.02	3.06	2.94
EBIT interest cover (x)	1.31	2.03	1.90

- Gearing ratio is based on net debt / RAV
- NWG ratios impacted by additional debt and £7.4m of exceptional charges

Dividends

- Interim dividend anticipates 1/3 of full dividend for 10 months trading to March 2004
- Dividend reflects 8.35% annualised yield on initial £1 share issue
- Interim dividend cover for NWG at 1.66x



**NORTHUMBRIAN
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John Cuthbert Managing Director

2003 – A year of change



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- **May**
 - Acquisition of NWG
 - NWG listed on AIM
- **Aug**
 - NWL Draft Business Plan to Ofwat
- **Sept**
 - NWL IDoK application to raise prices in 2004/05
 - Move to the Official List
- **Nov**
 - Ofwat announces draft IDoK of 9.6%
 - First results
- **Dec**
 - Confirmation of IDoK

2003 Operations



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- **Water resources**
 - **No water restrictions**
- **Services**
 - **Drinking water quality at highest level**
 - **Record bathing and river water results**
 - **Consistently high levels of customer service and satisfaction**
- **Innovation and new resources**
 - **Langford recycling scheme**
 - **Wear Valley water treatment works**

Regulatory opex

- Ofwat forecast an operating cost profile (2000 to 2005) for each company in its Final Determination in Nov 99
- The water companies seek to outperform this target as savings are retained for five years
- Efficiencies are stated after absorbing additional unanticipated costs

Regulatory year 02/03 (£m)	Water	Sewerage	Total
Final Determination	137.1	71.3	208.4
NWL actual costs	<u>(129.0)</u>	<u>(71.9)</u>	<u>(200.9)</u>
Over / (under) performance	<u>8.1</u>	<u>(0.6)</u>	<u>7.5</u>

Regulatory capex

- Ofwat forecast the capex profile (2000 to 2005) for each company in its Final Determination in Nov 99
- Ofwat expects companies to manage the delivery of their capex outputs broadly in line with the FD capex profile
- Underspend reflects efficiencies, lower growth but also some phasing differences

Capex 00/01 to 02/03 (£m)	Water	Sewerage	Total
Final Determination	363.0	298.1	661.1
NWL actual costs	<u>(338.5)</u>	<u>(277.0)</u>	<u>(615.5)</u>
Underspend against FD	<u>24.5</u>	<u>21.1</u>	<u>45.6</u>

Draft business plan



**NORTHUMBRIAN
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- **Proposal to raise prices in real terms by 37% over the period 2005 - 2010**
 - **Capital investment**
 - **Reduced industrial water consumption**
 - **Increased current cost depreciation**
 - **Increased operating costs**
 - **Change in taxation rules for infrastructure spend**
- **Proposed increases will be modified in light of outcome of IDoK application**
- **Northumbrian Water prices to remain amongst the lowest in the country**

Price review timetable



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- **Jan 2004 - Government guidelines**
- **Apr 2004 - Final Business Plan submitted**
- **July 2004 - Ofwat Draft Determination of prices**
- **Nov 2004 - Ofwat Final Determination of prices**
- **Apr 2005 - New prices apply**

Outlook

- **Focus on performance management to maintain high standards of service**
- **Completion of current actions**
 - **Confirmation of IDoK in December**
 - **Securitisation of Kielder**
 - **Credit rating review**
 - **EIB review of waiver**
 - **Sustainable prices from 2005 to 2010**
- **Looking forward to strong performance for the full period**