

Northumbrian Water Group plc

**Interim announcement of results
Six months to 30 September 2004**

7 December 2004

John Cuthbert

Managing Director

Agenda

- Introduction** – **John Cuthbert**
- Financial review** – **Chris Green**
- Operational review** – **John Cuthbert**
- Questions**

Chris Green

Finance Director

Basis of results

- **Period from 1 April 2004 to 30 September 2004**
- **Pro forma comparatives 1 April 2003 to 30 September 2003**

Highlights

- Turnover increased by 10% (£25.1m), reflecting IDoK
- Profit before tax increased by £17.9m to £49.4m, an increase of 57% (exceptionals of £7.4m excluded for 2003/04 comparatives)
- Interim ordinary dividend increased 3% on a pro forma basis to 2.87 pence per share
- Issue of £100m increase on 5.625% Eurobond 2033
- Financial position further strengthened

Summary Group results

(no exceptionals in 2004/05, exceptionals in 2003/04 excluded)

	2004/05	2003/04	
	6 mths	6 mths	
		Pro forma	
	£m	£m	
Turnover	286.5	261.4	+10%
Operating profit	101.3	80.8	+25%
Profit before tax	49.4	31.5	+57%
Profit after tax	40.4	35.8	+13%

Interest covers

	NWG	NWL	NWL Appointed
EBITDA interest cover	2.8	3.4	3.4
EBIT interest cover	1.9	2.4	2.3
Cash interest cover	3.1	4.9	n/a

N.B. 2003/04 interim comparatives not relevant due to the acquisition in the pro forma period

Current taxation

	2004/05	2003/04
	6 mths	6 mths
		Pro forma
	£m	£m
On profits	3.3	-
Reversal of pre-acquisition tax charge ¹	-	(1.8)
Overseas tax	0.1	-
Share of associates'/joint ventures'	<u>0.1</u>	<u>(0.4)</u>
Current tax charge/(credit)	<u>3.5</u>	<u>(2.2)</u>

¹2003 tax credit arose from the availability of tax losses in the new parent company

Deferred taxation

	2004/05	2003/04
	6 mths	6 mths
		Pro forma
	£m	£m
Undiscounted	11.8	6.3
Increase in discount	(6.4)	(9.1)
Share of associates'/joint ventures'	<u>0.1</u>	<u>0.7</u>
Deferred tax charge/(credit)	<u>5.5</u>	<u>(2.1)</u>

Earnings per share

	2004/05 6 mths £m	2003/04 6 mths Pro forma £m
Profit attributable to shareholders	40.6	27.7
Weighted average no. of shares in issue	518.6	518.6
Basic EPS	7.8p	5.3p
Adjusted EPS ¹	8.9p	6.6p

¹adjusted for deferred tax charge of £5.5m (03/04: £2.1m credit), goodwill of £nil (03/04: £1.0m), exceptional items of £nil (03/04: £7.4m)

Dividend

- Interim dividend 2.87p per share
 - after adjusting for the shorter trading period for 2003, represents an increase of just over 3% on a pro forma basis¹
- Interim dividend cover (after deferred tax) at 2.7x
- Progressive dividend policy expected to continue; this will reflect the final determination, the impact of IFRS and refinancing of 2006 NSL Bond

¹(6.95p/10x12 = 8.34p, 1/3rd = 2.78p x 3.1% = 2.87p per share)

NWL summary

	2004/05	2003/04	
	6 mths	6 mths	
	£m	£m	
Turnover	253.7	226.4	+12%
Operating costs	(107.3)	(104.2)	+3%
Capital maintenance costs	<u>(45.6)</u>	<u>(43.9)</u>	+4%
Operating profit	<u>100.8</u>	<u>78.3</u>	+29%

NWL turnover

	2004/05	2003/04	
	6 mths	6 mths	
	£m	£m	
Turnover	253.7	226.4	+12%

Increase mainly reflects:

- RPI of 2.5% on tariffs **5.1**
- IDoK **20.4**
- commercial contracts **1.8**

NWL total operating costs

	2004/05	2003/04	
	6 mths	6 mths	
	£m	£m	
Total operating costs	(152.9)	(148.1)	+3%
Increase mainly reflects:			
- manpower		(2.5)	
- bad debt		(1.6)	
- depreciation		(1.7)	

Segmental analysis - turnover

	2004/05	2003/04
	6 mths	6 mths Pro forma
	£m	£m
UK water	253.7	226.4
Water international	10.7	11.5
Related services	42.7	39.6
Inter segment	(20.6)	(16.1)
Group turnover	<u>286.5</u>	<u>261.4</u>

Segmental analysis - operating profit

	2004/05	2003/04
	6 mths	6 mths
		Pro forma
	£m	£m
UK water	100.8	78.3
Water international	0.5	1.6
Related services	1.9	1.5
Central unallocated/provisions	(1.9)	(2.8)
Group operating profit	<u>101.3</u>	<u>78.6</u>

Group debt profile

Net debt (before fair value) decreased by £0.2m to £1,768.2m

		£m	Maturity
• NSL	Eurobond	200.0	2006
• NWL	EIB	333.3	2005-2017
	Eurobonds	898.9	2017,2023,2033
	Kielder securitisation	212.1	2034
	Debenture stocks	9.2	2005-2012
	Finance leases	61.0	Amort. to 2017
	Committed bank facility	45.0	2005
• CES	Eurobond	58.1	2037
	Subordinated loan stock	3.8	2037
• Others		<u>1.5</u>	
Gross debt (excl. FV adj.)		1,822.9	
Cash/other		<u>(54.7)</u>	
Net debt 30 September 2004 (excl. FV adj.)		<u>1,768.2</u>	
Fair Value adjustment		<u>97.9</u>	
Net debt 30 September 2004 (incl. FV adj.)		<u>1,866.1</u>	

Gearing

- **NWG gearing (excl. FV adj.) 72% of RAV (March 04: 76%)**
- **NWL gearing 59% of RAV (March 04: 62%)**
- **NWL Appointed gearing 57% of RAV (March 04: 58%)**
 - **Outlook stable 2005-2010**

Group cash flow

	2004/05
	6 mths
	£m
Net cash inflow from operating activities	145.6
Net interest paid	(51.0)
Net capital expenditure	(76.7)
Equity dividends paid	(24.0)
Other/non-cash items	<u>6.3</u>
Decrease in net debt in period (excl. FV adj.)	<u>0.2</u>

Funding facilities update

- Issue of £100m increase to 5.625% Eurobond 2033 at an all-in cost within 5 bps of original issue in December 2002
 - proceeds will be used to repay short term working capital facilities and fund ongoing capital programme
- NSL 2006 re-financing facility - planned £125m (5 year)
- NWL working capital facility
 - existing £90m
 - planned £75m (364 day)
 - planned £75m (3-5 year)

Credit rating

- **Credit position strengthened:**
 - Kielder securitisation
 - EIB blanket waiver
 - Ofwat position paper
 - Refinancing of short term facilities
- **Positive reaction from agencies:**

- Fitch	BBB+	stable
- Moody's	Baa1	stable
- S&P's	BBB	positive



**NORTHUMBRIAN
WATER GROUP**

**John Cuthbert
Managing Director**

NWL operations

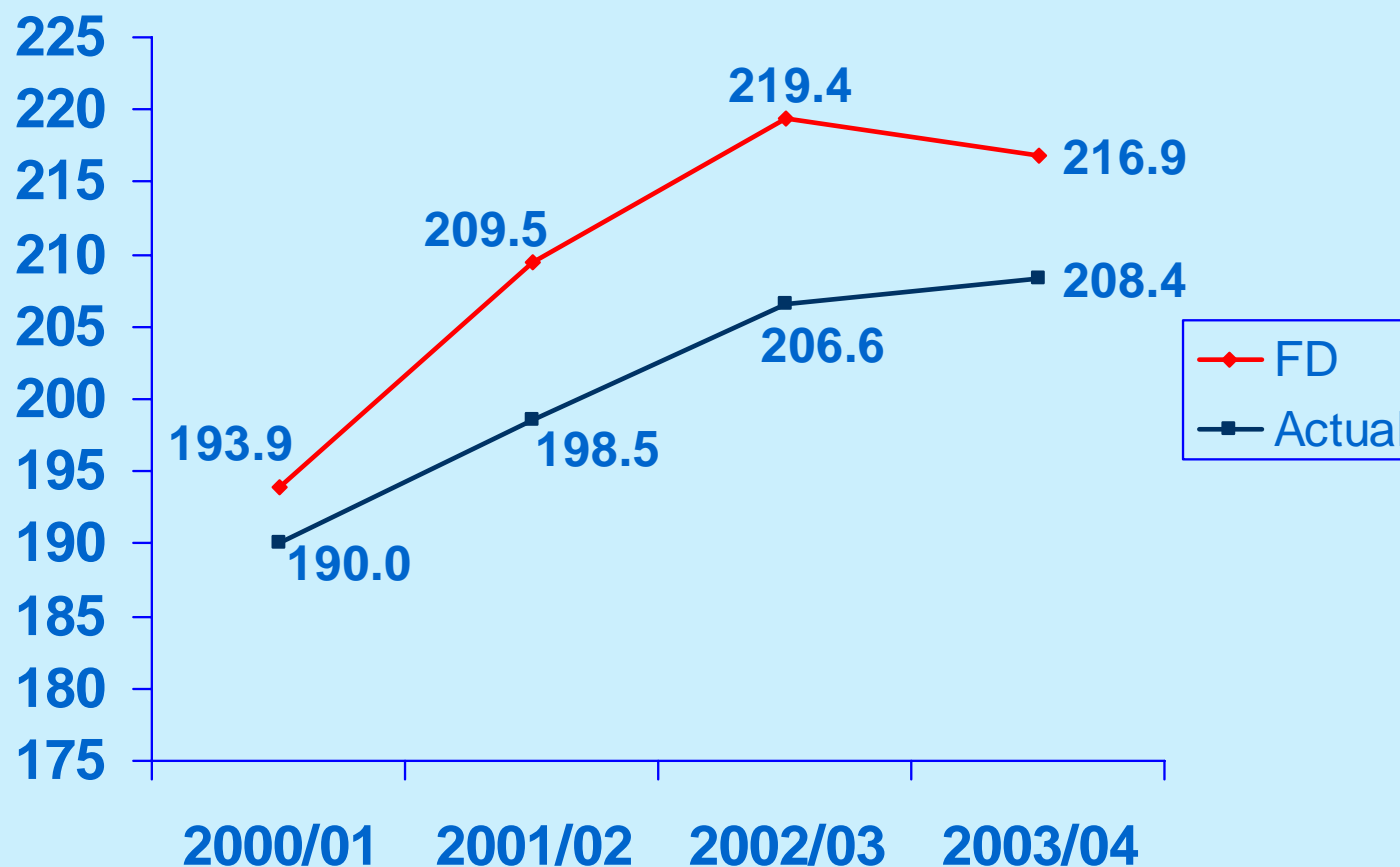
- **Services**
 - drinking water quality (99.93%) at highest level
 - excellent performance at waste water plants
 - consistently high levels of customer service and satisfaction with improvements in key areas
- **Innovation and new resources**
 - Langford recycling scheme
 - Wear Valley water treatment works

NWL regulatory performance

- **All regulatory outputs met**
- **Opex outperformance sustained**
- **Capex for AMP3 in line with c. 5% efficiency**

NWL regulatory opex

£36.2m cumulative outperformance



NWL 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 2000/01 to 2003/04 (2003/04 prices £m)

	Water	Sewerage	Total
Final Determination	405.2	398.6	803.8
NWL actual costs	<u>(394.0)</u>	<u>(372.8)</u>	<u>(766.8)</u>
	<u>11.2</u>	<u>25.8</u>	<u>37.0</u>

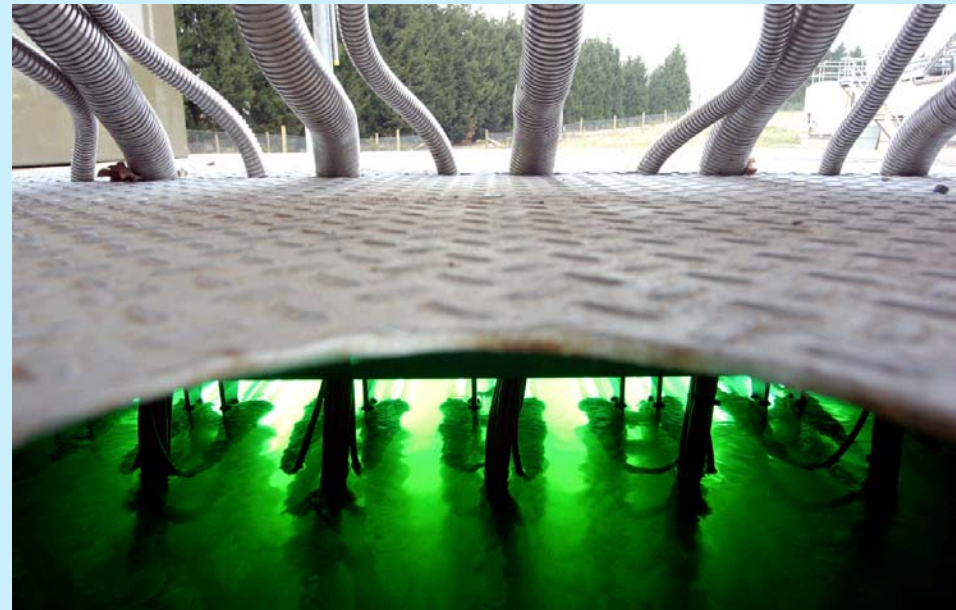
Wear Valley

- **Wear Valley water treatment works**
- **Replaced two existing works**
- **Improve quality of water supplied**
- **Area of Outstanding Natural Beauty**
- **Significant build underground**



Langford

- **Langford recycling scheme**
- **Increased water resources by 8%**
- **Innovative and award winning**



Cork

- **€70 million waste water treatment plant for Cork City Council**
- **20 year operation and maintenance contract**



Ayrshire

- **Waste water treatment at**
 - Inverclyde
 - Stevenston
 - Meadowhead
- **Completion certificate due Dec**
- **Built inside a quarry to minimise impact on community**



Final Determination

- Prices to increase in real terms by 15% over the period 2005 - 2010 (Draft Determination 7.8%)
- Prices in the North to remain amongst the lowest in the country
- Prices in the North to be on average 4% cheaper (before inflation) by 2009/10 than in 1999
- Regulator has addressed a number of points; still analysing the details, although appears a more acceptable determination than the draft

Final Determination

	05/06	06/07	07/08	08/09	09/10	Avg.
K factors						
Draft Determination	4.3	2.0	1.5	0.0	0.0	1.5
Final Determination	6.5	3.7	3.2	1.0	0.6	3.0
RAV at March						
(Mar 03 price base)	2,421	2,480	2,524	2,552	2,556	
Avg. domestic bill (£)						
Northumbrian Water	243	250	256	258	260	
Essex & Suffolk Water	141	146	151	152	153	

Final Determination

- **Capital investment lower than AMP3**
 - Increase in maintenance investment
 - Improve water resources
 - Reduce discolouration incidents
 - Reduce sewer flooding
- **Scale of NWL's capital programme leads to a stable financial position over the period**

Outlook

- **Review Final Determination**
- **Delivering AMP4**
- **Continued focus on performance**
- **Financial position stable**
- **Ongoing review of IFRS impact in 2005/06**
- **Progressive dividend policy**

Northumbrian Water Group plc