

Northumbrian Water Group plc

Preliminary announcement of results

Period from 12 May 2003 to 31 March 2004

9 June 2004

Agenda

- Introduction** – **John Cuthbert**
- Financial Review** – **Chris Green**
- Operational Review** – **John Cuthbert**
- Questions & Answers**



**NORTHUMBRIAN
WATER GROUP**

John Cuthbert

Managing Director



**NORTHUMBRIAN
WATER GROUP**

Chris Green

Finance Director

Basis of results

- **Period from 12 May 2003 to 31 March 2004**
- **10 months trading from 23 May 2003**
- **Comparatives - 10 months trading from 23 May 2002**
- **2003/04 interest charges reflect acquisition debt**



Summary Group Results

(before exceptionals)

	03/04	02/03	
	10 mths	10 mths	
	£m	£m	
Turnover	442.1	429.0	+3%
Operating Profit	145.8	144.0	+1%
Profit before tax	56.5	80.6	- 30%
Profit after tax	67.5	79.2	- 14%



Operating profit

(before exceptionals)

Improvement before exceptionals reflects:

		£m
Income: (total increase of £13.1m)	NWL	13.3
	CES	3.5
	Imass	(3.2)
Operating costs: (total increase of £11.3m)	NWL	10.8
	CES	2.5
	Imass	(3.4)
	AquaGib	0.9



Interest payable

	£m
2002/03 net interest payable	65.3
2003/04 changes:	
Acquisition debt	21.9
Underlying increase in debt	4.6
EIB back up facilities	1.5
Ayrshire BOT	1.5
2002 Bond and EIB issues	3.3
Amortisation of fair value of debt	<u>(5.3)</u>
2003/04 net interest payable	<u>92.8</u>



Current taxation

	03/04	02/03
	10 mths	10 mths
Current:	£m	£m
On profits	3.8	6.8
On exceptional costs	(2.3)	-
Prior year adjustments	(10.9)	(14.4)
Share of associates'/joint ventures'	<u>0.3</u>	<u>(1.5)</u>
	<u>(9.1)</u>	<u>(9.1)</u>



Deferred taxation

	03/04	02/03
	10 mths	10 mths
Deferred:	£m	£m
Reversal of timing differences	18.6	27.7
Prior year adjustments	(1.3)	10.9
Increase in discount	(21.5)	(28.1)
On exceptional costs	<u>(0.7)</u>	<u>-</u>
	<u>(4.9)</u>	<u>10.5</u>

Taxation summary

Tax on profit on ordinary activities	<u>(14.0)</u>	<u>1.4</u>
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Exceptional items

• Operating costs reflect:	£m
- Severance costs arising from sale	1.1
- Costs related to full listing	1.1
• Interest related to debt arrangement costs:	
- Arrangement fees in 2003/04 re £536m short term acquisition loan	8.8
• Tax credit on the above	<u>(3.0)</u>
Total	<u>8.0</u>

NWL summary

	03/04	02/03	
	10 mths	10 mths	
	£m	£m	
Turnover	386.2	372.9	+4%
Operating costs	(183.9)	(172.1)	+7%
Capital maintenance costs	<u>(68.9)</u>	<u>(69.9)</u>	- 1%
Operating profit	<u>133.4</u>	<u>130.9</u>	+2%



NWL turnover

	03/04	02/03	
	10 mths	10 mths	
	£m	£m	
Turnover	386.2	372.9	+4%

Increase reflects:

- RPI of 2.65% on tariffs **9.0**
- Income from “void” properties **2.5**
- Commercial contracts **1.1**

NWL operating costs

	03/04	02/03	
	10 mths	10 mths	
	£m	£m	
Operating costs	(183.9)	(172.1)	+7%

Increase reflects:

- Abstraction and rates	3.4
- Manpower	2.8
- Leakage	2.1
- Sludge treatment and disposal	1.9
- Bad debt	0.8

Group balance sheet

- Net debt (before fair value) increased by £579.8m to £1,768.4m
- £536m of new debt raised to fund acquisition
- Net outflow from operating activities of £43.8m
- Net investment in fixed assets of £158.4m
- Intangible asset recognised for Kielder operating contract – capped at £64.2m, eliminating goodwill



Fair value adjustments

Fair value adjustments include:	£m
- Kielder intangible asset	64.2
- Reduction in pension asset	(2.0)
- Increase in fair value of debt	(106.4)
- Increase in bad debt provision	(9.2)
- Increase in deferred tax	<u>(0.7)</u>
Total of fair value adjustments	<u>(54.1)</u>

Group cash flow

Dominated by transactions relating to acquisition:

£m

- Purchase of AWL by NWG	(788.9)
- Net cash outflow from normal activities	(44.6)
Funded by:	
- Issue of new shares	368.5
- Acquisition debt	536.0
- Utilisation of existing cash	293.6
- Less repayment of debt	<u>(351.3)</u>
- Increase in cash balance	<u>13.3</u>

Securitisation update

- **Net proceeds £212.1m**
- **All in cost c. 6%, maturity 2034**
- **New debt rated AAA by all agencies**

Syndicated facilities update

- **£205m repaid from securitisation proceeds**
- **EIB blanket waiver on existing loans**
- **£376m back up facilities cancelled**
- **£11.3m PFI guarantee facility cancelled**
- **£90m working capital facility replaced with bridging loan**

Group debt profile

- **Kielder extends maturity profile to 18.3 years**
- **NWG gearing 76% of RAV**
- **NWL gearing 62% of RAV (of which 58% appointed)**

Credit rating

- **Credit position strengthened:**
 - **Successful IDoK**
 - **Kielder securitisation**
 - **EIB blanket waiver**
 - **Refinancing of short term facilities**

Positive reaction from agencies:

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



Interest covers **(before exceptionals)**

	NWG	NWL	NWL appointed
EBITDA interest cover	2.39	2.96	2.88
EBIT interest cover	1.61	1.98	1.88

Dividend

- **Final dividend 4.63p per share**
- **Total dividend 6.95p, for 10 months trading to 31.3.2004**
- **Final dividend cover before exceptionals at 1.9x**



**NORTHUMBRIAN
WATER GROUP**

**John Cuthbert
Managing Director**

Operations

- **Water resources - No water restrictions**
- **Services - Drinking water quality (99.93%) at highest level**
 - **100% pass rate on bathing waters**
 - **Consistently high levels of customer service and satisfaction**
- **Innovation and new resources**
 - **Langford recycling scheme**
 - **Wear Valley water treatment works**

Regulatory performance

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

Final business plan

- **Proposal to raise prices in real terms by 28% over the period 2005 - 2010**
 - **Capital investment lower than AMP3**
 - **Reduce the incidents of discolouration**
 - **Improve water resources**
 - **Reduce sewer flooding**
 - **Increase in maintenance investment**
 - **Tax changes**
- **Prices to remain amongst the lowest in the country**

Outlook

- **Focus on performance**
 - **Excellent drinking water quality**
 - **Maintaining highest environmental standards**
 - **Delivery of regulatory outputs**
 - **Opex and capex efficiency**
- **Financial position strengthened**
- **Addressing points raised in Ofwat position paper**
- **2004/05 trading performance significantly improved by Idok**
- **Well balanced business plan**

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