

Northumbrian Water Group plc



**Preliminary announcement of results
for the year ended 31 March 2005**

8 June 2005



**NORTHUMBRIAN
WATER GROUP**

John Cuthbert

Managing Director

Agenda

- Introduction** – **John Cuthbert**
- Financial Review** – **Chris Green**
- Operational Review** – **John Cuthbert**
- Q & A**



Highlights

Strong financial performance

Balance sheet strengthened

Dividend Policy

Final determination

Suez and Ontario Teachers

Strong financial performance

December 2003

- Ofwat approved application for an interim increase of price limits

Turnover

- increased by 11% (£57.8m pro forma)

Profit before tax

- £108.8m (increase of 59% (£35m) on pro forma, PBT before exceptionals and debt fair value)

	2004/05	2003/04 Pro forma
PBT – headline	108.8	54.0
Amort. debt fair value	(14.1)	(5.3)
Exceptionals	-	11.0
Adjusted PBT	94.7	59.7



Balance sheet strengthened

May 2004

- **Kielder securitisation**
- **EIB to remain lender to NWL**

July 2004

- **Ofwat position paper**

December 2004

- **£100m increase on 2033 Eurobond**

January 2005

- **S&P credit upgrade**

Dividend policy

- | | |
|-----------------------|--|
| Final dividend | <ul style="list-style-type: none">• 7.13 pence per share <p>(total 10 pence per share)</p> |
| Expect growth | <ul style="list-style-type: none">• around 3% real to 2009/10 |
| NWL policy | <ul style="list-style-type: none">• consistent with FD assumptions |

Policy maintains NWG & NWL gearing at around current levels



Final determination

Prices increase by 15% in real terms over 2005–10

Capital investment of £1 billion (outturn prices):

- Reduce incidents of discolouration**
- Improve water resources**
- Reduce sewer flooding**
- Increase maintenance investment**



Final determination (continued)

Efficiency targets

- 1.2% pa Water**

- 2.0% pa Sewerage**

Increased energy, pension & tax costs recognised

Prices remain amongst the lowest in the country

Final determination (continued)

	05/06	06/07	07/08	08/09	09/10
K factors %	6.5	3.7	3.2	1.0	0.6
RCV at March (outturn prices)	2,628	2,759	2,879	2,983	3,062
Avg. domestic bill (£) (2004/05 price base)					
Northumbrian Water	243	250	256	258	260
Essex & Suffolk Water	141	146	151	152	152



**NORTHUMBRIAN
WATER GROUP**

Chris Green

Finance Director

Basis of results

Period from 1 April 2004 to 31 March 2005

Pro forma comparatives 1 April 2003 to 31 March 2004



Summary Group results

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

	2004/05	2003/04	
	12 mths	12 mths	
		Pro forma	
	£m	£m	
Turnover	578.6	520.8	+11%
Operating profit	204.7	164.3	+25%
Interest	(99.1)	(105.3)	-6%
Profit before tax	108.8	65.0	+67%
Profit after tax	98.4	75.5	+30%

Debt fair value amortisation profile

£m	04/05	05/06	06/07	07/08	08/09	09/10
Interest credit	14.1	11.8	7.2	5.8	5.6	5.5

Reflects actual maturity of debt

Credit ratios

	2004/05			2003/04 Pro forma		
	NWG	NWL	NWL App.	NWG	NWL	NWL App.
Cash interest cover	2.7x	3.4x	3.4x	2.7x	3.3x	3.1x
Cash flow to net debt	16%	17%	18%	14%	17%	16%



Current taxation

	2004/05	2003/04
	12 mths	12 mths
		Pro forma
	£m	£m
Tax on profits for the year	(3.0)	(1.6)
Adjustments re prior years	1.8	10.9
Overseas tax	(0.1)	(0.1)
Current tax (charge)/credit	(1.3)	9.2



Deferred taxation

	2004/05	2003/04
	12 mths	12 mths
		Pro forma
	£m	£m
Current year	(26.7)	(19.1)
Prior periods	7.6	1.3
Increase in discount	10.2	22.5
Deferred tax (charge)/credit	(8.9)	4.7

Earnings per share

	2004/05	2003/04
	12 mths	12 mths Pro forma
Profit attributable to shareholders	£98.9m	£74.9m
Weighted average no. of shares in issue	518.6m	518.6m
Basic EPS	19.1p	14.4p
Adjusted EPS¹	18.1p	14.2p

¹adjusted for deferred tax charge of £8.9m, amortisation of debt fair value £14.1m (03/04: £4.7m credit and £5.3m respectively) and exceptional items of £nil (03/04: £8.7m)

Dividend

Final proposed dividend 7.13 pence per share

- **after adjusting for the shorter trading period for 2004, represents an increase of 20% on a pro forma basis¹**

Dividend cover

- **1.9x**
- **1.8x (after deferred tax charge £8.9m and debt fair value credit £14.1m)**

¹**(6.95 pence/10x12 = 8.34 pence x 20% = 10 pence per share)**



NWL summary

	2004/05	2003/04	
	12 mths	12 mths	
	£m	£m	
Turnover	508.2	454.6	+12%
Operating costs	(214.9)	(218.7)	-2%
Capital maintenance costs	(91.5)	(83.2)	+10%
Operating profit	201.8	152.7	+32%



NWL turnover

	2004/05	2003/04	
	12 mths	12 mths	
	£m	£m	
Turnover	508.2	454.6	+12%

Increase mainly reflects:

- RPI of 2.5% on tariffs **10.4**
- IDoK **41.0**
- RPI on commercial contracts **2.5**



NWL total operating costs

	2004/05	2003/04	
	12 mths	12 mths	
	£m	£m	
Total operating costs	(306.4)	(301.9)	+1%

Increase mainly reflects:

- depreciation of new assets (6.0)
- assets written off (2.9)
- Hexham incident (1.1)
- One-off costs in 03/04 7.3
- Inflationary increases (3.5)

(manpower,power,chemicals,abstraction)



Segmental analysis - turnover

	2004/05	2003/04
	12 mths	12 mths
		Pro forma
	£m	£m
UK water	508.2	454.6
Water international	23.1	20.7
Related services	87.7	82.1
Inter segment	(40.4)	(36.6)
Group turnover	578.6	520.8



Segmental analysis - operating profit

	2004/05	2003/04
	12 mths	12 mths
		Pro forma
	£m	£m
UK water	201.8	152.7
Water international	2.3	2.2
Related services	4.8	3.4
Central unallocated/provisions	(4.2)	6.0
Group operating profit	204.7	164.3

Group debt profile

Net debt increased by £11.5m to £1,881.0m (£25.6m excluding debt fair value amortisation)

		£m	Maturity
NSL	Eurobond	189.6	2006
NWL	EIB	324.2	2005-2017
	Eurobonds	996.2	2017,2023,2033
	Kielder securitisation	212.1	2034
	Debenture stocks	9.2	2005
	Finance leases	61.8	2005-2017
NWI (CES)	Eurobond	58.3	2037
	Subordinated loan stock	3.8	2037
Others		1.4	
Gross debt (excl. FV adj.)		1,856.6	
Cash/other		(62.6)	
Net debt 31 March 2005 (excl. FV adj.)		1,794.0	
Acquisition fair value adjustment		87.0	Fixed rate
Net debt 31 March 2005 (incl. FV adj.)		1,881.0	borrowings at 88%



Gearing

NWG gearing

76% of RCV (March 04: 81%)

73% of RCV (excl. FV adj.); (March 04: 76%)

NWL gearing 68% of RCV (March 04: 62%)

NWL Appointed gearing 59% of RCV (March 04: 59%)

Outlook stable 2005-10

Group cash flow

	2004/05	2003/04
	12 mths	12 mths
		Pro forma
	£m	£m
Net cash inflow from operating activities	283.4	255.4
Net interest paid	(110.7)	(102.5)
Taxation	6.7	-
Net capital expenditure	(173.1)	(177.6)
Equity dividends paid	(38.9)	(43.2)
Acquisition of business	-	(877.2)
Issue of new shares	-	368.5
Other/non-cash items	21.1	(0.7)
Increase in net debt in the year	(11.5)	(577.3)

Funding facilities update

Issue of £100m increase to 5.625% 2033 Eurobond

NSL 2006 re-financing facility • £125m (5 year)

**NWL working capital facility • £75m (364 day)
• £75m (5 year)**



IFRS

Interim and full year results to Mar 2006 under IFRS

Major differences expected

- Deferred tax**
- Retirement benefits**
- Fixed asset accounting**
- Business combinations**
- Intangible assets**

No impact on Group cash flow or ability to pay dividends

**IFRS presentation to analysts and investors planned for
September 2005**



**NORTHUMBRIAN
WATER GROUP**

John Cuthbert

Managing Director



Operations NWL

Water

- No water restrictions
- Drinking water quality (99.91%)

Sewerage

- 100% compliance with effluent consents
- Wettest August for 50 years

Customers

- Consistently high levels of customer service and satisfaction
- Hexham





Operations NWL

Quality

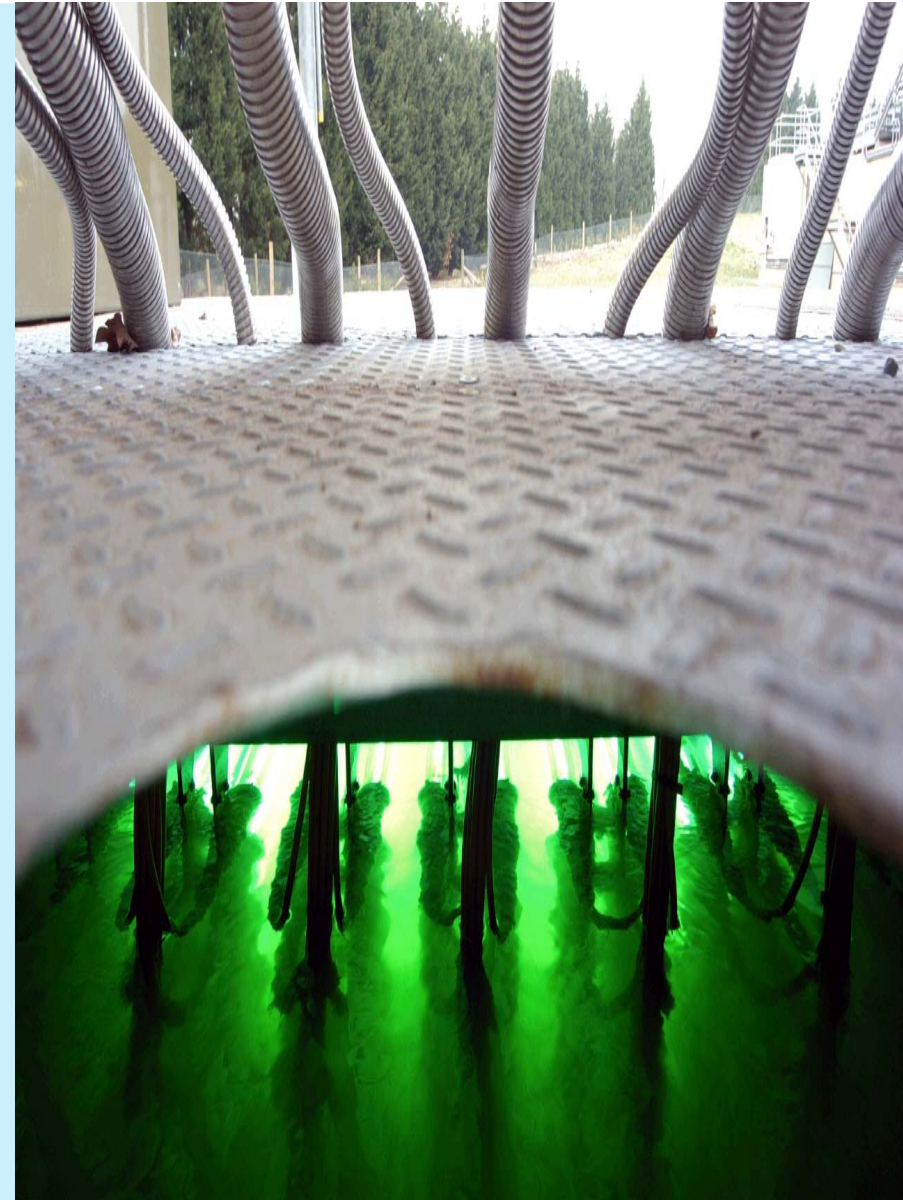
- ISO 14001

Award Winning

- Langford recycling scheme
- Wear Valley water treatment works

Innovation

- Bran Sands and Lafarge





Regulatory performance

All regulatory outputs met

Opex outperformance sustained

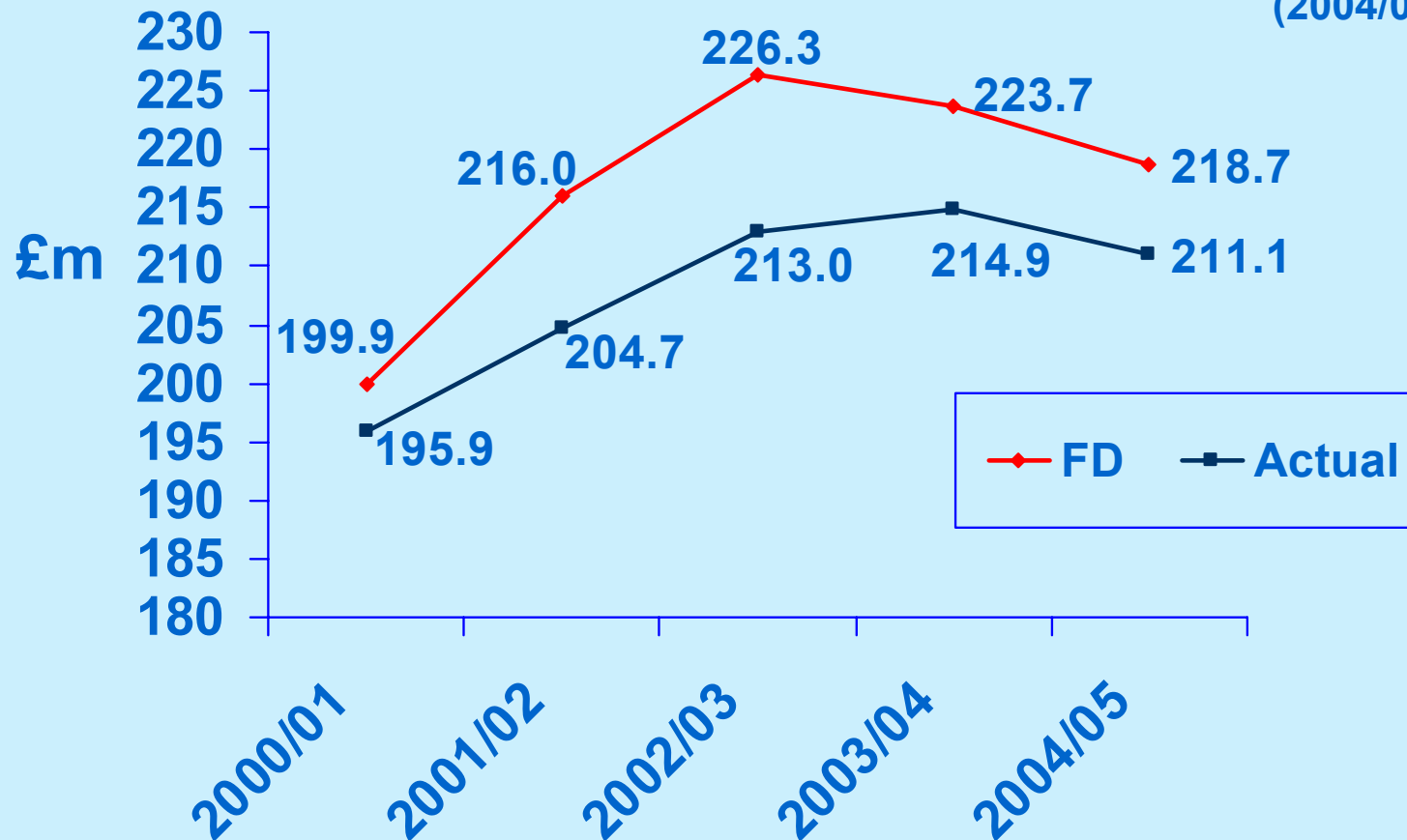
Capex efficiency for AMP3 c. 3%



NWL regulatory opex

£45m cumulative outperformance

(2004/05 prices)





NWL regulatory capex (AMP3)

(2004/05 prices £m)

	Water	Sewerage	Total
Final determination	610.4	490.3	1,100.7
NWL actual costs	(573.9)	(491.3)	(1,065.2)
	<hr/> 36.5	<hr/> (1.0)	<hr/> 35.5



**NORTHUMBRIAN
WATER GROUP**

NWG

Entec

- New contracts
- “Best Consultancy”

AES

- MCERTS accreditation
- New contracts



NWI

Cork

- Design & construction complete
- 20 year operation & maintenance

Levenmouth

- Effluent treatment plant operational
- Odour treatment complete 2006

Ayrshire

- 3 Effluent treatment plants operational

Gibraltar

- Increase in water charges





Outlook

Established track record

- Service excellence
- Organic growth
- Stakeholder value

Focus on performance in core regulated activities

- Drinking water quality
- Environmental standards
- Regulatory outputs

Stable financial profile

- Clear and sustainable dividend policy



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