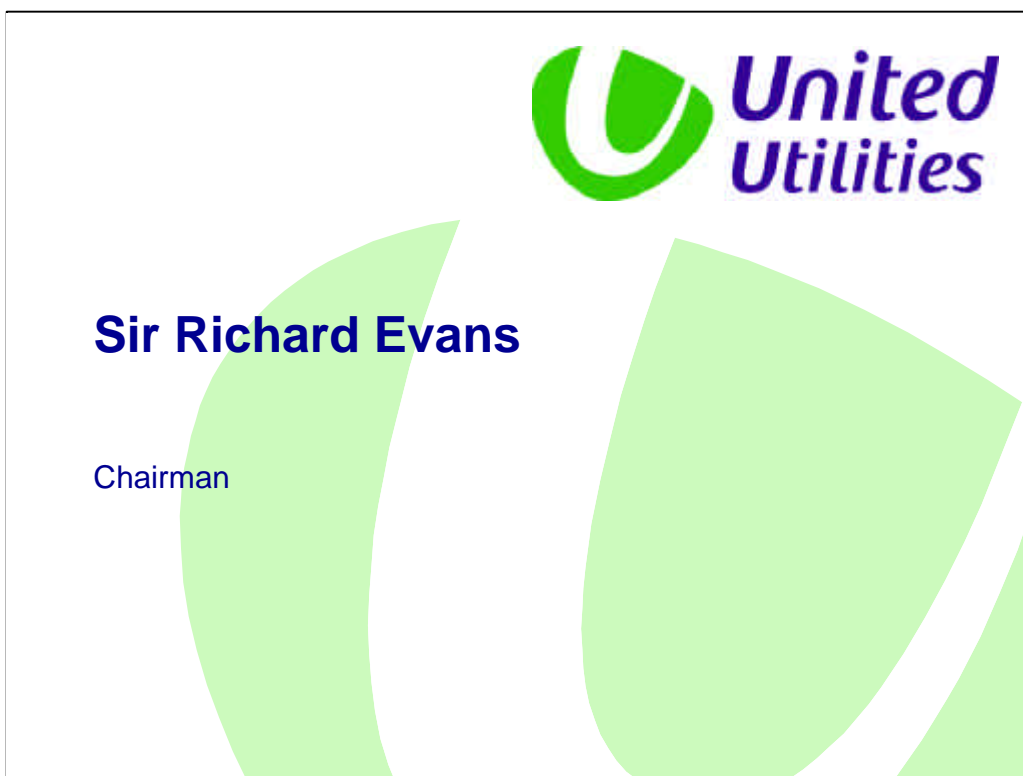




## **United Utilities PLC**

Interim results presentation

Six months ended 30 September 2001



Ladies and gentlemen, good morning and thank you for coming to our results presentation.

I am pleased to introduce our interim results presentation to you today. With me on the platform are John Roberts, our Chief Executive and Simon Batey, our Finance Director. Also with us are other members of our executive team:

- Les Dawson, Managing Director of United Utilities Service Delivery;
- Gordon Waters, Managing Director of United Utilities Contract Solutions;
- Tom Drury, who's in charge of Vertex;
- Chris Brook, Finance Director of United Utilities Customer Sales; and
- Jeremy Deering, Finance Director of Your Communications.

## Agenda

- Introduction
- Financial review
- Business update
- Questions

Sir Richard Evans

Simon Batey

John Roberts

Sir Richard Evans

3

In a moment Simon will take you through our numbers for the half year. John will then update you on the progress we're making and our future prospects and at the end of the presentation we will be pleased to answer any questions you may have.

Before I hand over to Simon, I'd just like to say that we are pleased with the progress that the group is making in developing its growth businesses, we are exploiting the opportunities to deploy its core skills in growth markets, and we're achieving multi-utility efficiency in its licensed businesses. The group has made significant headway against the background of a difficult economic environment over the last few months.

I'm now handing over to Simon and then we'll come back to questions and answers.



**Simon Batey**

Finance Director

Thank you, Chairman. Good morning, ladies and gentlemen.

## Highlights

- **Profit\* before tax**
  - increased by 8% to £164m
- **Asset management services**
  - sales nearly doubled to £175m
- **Customer management outsourcing**
  - sales increased by 39% to £134m
- **Licensed multi-utility operations**
  - operating profit increased by 5% to £262m
- **Telecommunications**
  - turnover increased by 42% to £75m
- **Earnings per share\*\* increased by 7%**
- **Interim dividend increased by 2%**

\* excluding discontinued activities, exceptional items and goodwill

\*\* adjusted for discontinued activities, exceptional items, goodwill and deferred taxation

5

Our results for this half year show the progress we're making in delivering growth and efficiency.

We've increased profit before tax by 8 per cent.

We've nearly doubled turnover in our asset management services business, and we've seen a substantial increase in profitability.

We've increased sales by nearly 40 per cent in Vertex and operating margins have risen.

Within our licensed multi-utility operations, we've increased profitability by 5 per cent as our cost reduction programme continues to deliver.

And the development of our telecoms business remains on track. It again posted substantial growth in turnover.

## Turnover

£m	2001	2000	
Total†	912.1	957.5	
Discontinued operations*	-	(201.5)	
Continuing operations	<u>912.1</u>	<u>756.0</u>	+21%
Licensed multi-utility operations	601.1	592.1	+1%
Support services and telecoms	387.1	242.6	+60%
Interbusiness eliminations	<u>(76.1)</u>	<u>(78.7)</u>	
Continuing operations	<u>912.1</u>	<u>756.0</u>	

† includes share of joint venture turnover

\* energy supply sold August 2000

6

Turning to the numbers, group turnover from continuing operations increased 21 per cent compared to last year with strong growth of 60 per cent from our support service and telecom businesses.

### Profit before tax

£m	2001	2000	
Operating profit*	276.4	257.9	+7%
Interest charge**	(112.5)	(105.7)	
Profit before tax*	<u>163.9</u>	<u>152.2</u>	+8%

- Full year effect of borrowings to fund capital programme
- Stable interest rates, reflecting benefits of hedging programme

\* excluding discontinued activities, exceptional items and goodwill

\*\* excluding discontinued operations

7

Group operating profit from continuing operations improved by 7 per cent in the period and I'll come back to the reasons for this improvement in a minute.

Interest charges increased, reflecting the full year effect of increased borrowings last year, funding our capital expenditure programme. Average interest rates were stable and should remain so going forward, reflecting the benefits of our hedging programme.

And, as I've said, profit before tax increased by 8 per cent.

### Taxation\*

£m	2001	2000
Ordinary taxation charge	6.1	5.8
Deferred tax charge*	27.4	28.0
	<u>33.5</u>	<u>33.8</u>

#### Ordinary taxation charge

- Based on estimated effective tax rate for the full year
- Mainly UK tax of £5m
- Benefit of tax allowances on continuing high level of capital expenditure

#### Deferred tax charge

- Complying with FRS19 on a discounted basis

\* excluding exceptional tax on disposal

8

The ordinary tax charge includes £5 million of UK tax, and £1 million tax on our overseas interests. Tax on UK operating profits has been offset by the benefit of allowances from the continuing high level of capital expenditure.

This year, we've adopted FRS19, Accounting for Deferred Tax. Using the discounted basis, our post FRS19 effective tax rate for the year will be around 21 per cent.

## Earnings and dividends

Pence per share	2001	2000
Earnings per share*	28.4	26.6
Dividend per share	15.3	15.0
Dividend cover*	1.9x	1.8x

- 7% growth in adjusted EPS
- Interim dividend increased by 2%

\* adjusted for discontinued activities, exceptional items, goodwill and deferred taxation

9

Based upon the improving earnings per share from continuing activities, we're declaring an interim dividend of 15.3 pence, an increase of 2 per cent.

### Movement in net debt

£m	2001	2000
Operating cash flow	301.2	420.4
Acquisitions and disposals	(4.1)	309.1
Capital expenditure	(284.7)	(309.2)
Returns on investment and servicing of finance	(104.9)	(91.1)
Other	1.1	(4.9)
(Increase)/decrease in net debt	<u>(91.4)</u>	<u>324.3</u>

#### Operating cash flow

- Reduction reflects business disposals

#### Acquisitions and disposals

- Prior year reflects sale of energy supply business
- Current year reflects earnout payments

Turning now to our net debt position, we've seen a small cash outflow in the period, reflecting the continuing capital expenditure programme.

The reduced cash flow from operations reflects the profit and working capital effects of business disposals in the previous year. Last year also benefited from the net proceeds from these disposals.

### Balance sheet

£m	2001	2000
Debt	2,897.8	2,512.1
Equity shareholders' funds	2,638.4	2,636.0
Gearing	109.8%	95.3%

### FRS 19 Accounting for Deferred Taxation

- Net assets at 30 September 2001 reduced by £260m
  - increases reported gearing by c10%
- No effect on cash flows or borrowing and dividend capacity

Reported balance sheet gearing rose from 95 per cent last year to 110 per cent this year, partly as a result of FRS19, which requires full provision for deferred tax to be reflected on our balance sheet. Taking into account the particularly long lives of our infrastructure assets, and adopting the permitted discounting method, our net assets have reduced by £260 million as a result of the standard. Of course, this accounting policy has no effect on our cash flows, and will not therefore affect our borrowing or dividend capacity.

### Licensed multi-utility operations

£m	2001	2000	
Turnover	601.1	592.1	+1%
Operating profit	261.8	250.0	+5%

- Real regulatory price reductions
  - 1% in water & wastewater and 3% in electricity distribution
    - in line with 1999 regulatory reviews
- Operating cost reduction programme
  - well on track to deliver £30m of further savings for full year
  - initiatives in place by the year end to deliver over 80% of our £450m cost saving target

12

In our licensed multi-utility operations, turnover increased by 1 per cent compared with last year, reflecting the real regulatory price reductions in line with the outcome of the 1999 price reviews.

Operating profit increased 5 per cent as a result of our cost reduction programme which is well on track to deliver its full year target of £30 million of further savings.

By the end of this year, we will have put in place initiatives to deliver more than 80 per cent of our £450 million target.

### Asset management services

£m	2001	2000	
Turnover	175.0	89.1	+96%
Operating profit*	14.9	11.9	+25%

- Turnover
  - boosted by greater involvement in capital maintenance programme of Welsh Water
- Operating profit
  - reflects contribution from new business acquired last year
  - as anticipated, operating margin reflects start-up costs on Welsh Water contract

\* excluding goodwill

13

In asset management services, sales nearly doubled, further boosted by a greater involvement in the capital maintenance programme of Welsh Water than was originally anticipated.

Operating profit increased by 25 per cent reflecting the contribution of new business secured during the last financial year. As anticipated, operating margin reflects the effect of mobilisation costs on the Welsh Water contract.

### Customer management outsourcing

£m	2001	2000	
Turnover	134.3	96.7	+39%
Operating profit*	6.9	4.0	+73%

- Sales growth reflects increased volume of external business
- Operating margin increased from 4.1% to 5.1%
  - increasing maturity of external contract portfolio
  - cost reductions on internal contracts

\* excluding goodwill

14

In Vertex, sales growth of 39 per cent reflected increasing volumes in external business.

As anticipated, the operating margin improved from 4.1 per cent last year to 5.1 per cent, reflecting the increasing maturity of the external contract portfolio and progress in the achievement of cost reductions on internal contracts. Existing contracts in all sectors continued to perform in line with expectations.

## Telecommunications

£m	2001	2000	
Business sales	50.8	29.6	+72%
Premium rate services	<u>24.5</u>	<u>23.3</u>	+5%
Turnover	<u>75.3</u>	<u>52.9</u>	+42%
Operating loss*	<u>10.8</u>	<u>11.1</u>	

- Turnover increased 35% year on year excluding acquisitions
- Reduced operating loss
  - reflects contribution from higher revenues as customer base grows and increased value added sales are secured

\* excluding goodwill

15

In Your Communications, turnover grew by 42 per cent. Excluding the effects of acquisitions, the increase was 35 per cent. Business sales increased by 72 per cent reflecting the planned shift in the mix of the business.

Operating losses in the period were lower than last year and are anticipated to reduce further as contributions feed through from higher revenues as the customer base is grown and increased value-added sales are secured.

### Segmental analysis of profits

£m	2001	2000
Licensed multi-utility operations	261.8	250.0
Asset management services	14.9	11.9
Customer management outsourcing	6.9	4.0
Telecommunications	(10.8)	(11.1)
Other activities	5.6	5.0
Corporate costs	(2.0)	(1.9)
Operating profit from continuing activities*	<u>276.4</u>	<u>257.9</u>

\* excluding goodwill and exceptional items

16

Each of our businesses has shown improved results in the half year. Taken as a whole, these performances, together with the contribution from our other activities less our corporate costs, give us the overall group operating profit from continuing activities of £276 million.

## Highlights

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  - turnover increased by 42% to £75m
- **Earnings per share\*\* increased by 7%**
- **Interim dividend increased by 2%**

\* excluding discontinued activities, exceptional items and goodwill

\*\* adjusted for discontinued activities, exceptional items, goodwill and deferred taxation

17

So in conclusion, we've had a good half year, and we've made good progress in delivering both growth and efficiency.

As I said at the beginning:

We've grown both our Contract Solutions and our Vertex businesses through our contract successes.

We're delivering progress with our cost reduction programme, principally as a result of multi-utility synergies.

Our telecoms business is progressing well and is now moving to profitability.

Against this background, we've declared an interim dividend of 15.3 pence, a two per cent increase over last year.

Thank you.



**John Roberts**

Chief Executive

Thank you, Simon. Good morning, ladies and gentlemen.

# Delivering growth & efficiency

19

The numbers that Simon has just run through show the progress that we've made in delivering both growth and efficiency.

## Delivering growth...

- **Asset management services**
  - sales nearly doubled to £175m
  - operating profit\* increased by 25% to £15m
    - reflecting start-up costs
- **Customer management outsourcing**
  - sales increased by 39% to £134m
  - operating profit\* increased by 73% to £7m
  - operating margin\* increased from 4.1% to 5.1%
- **Telecommunications**
  - sales increased by 42% to £75m
  - EBITDA positive on a month by month basis

\* excluding goodwill

20

What I'd like to do now is talk about each of these in turn, starting with the progress we've made in delivering growth.

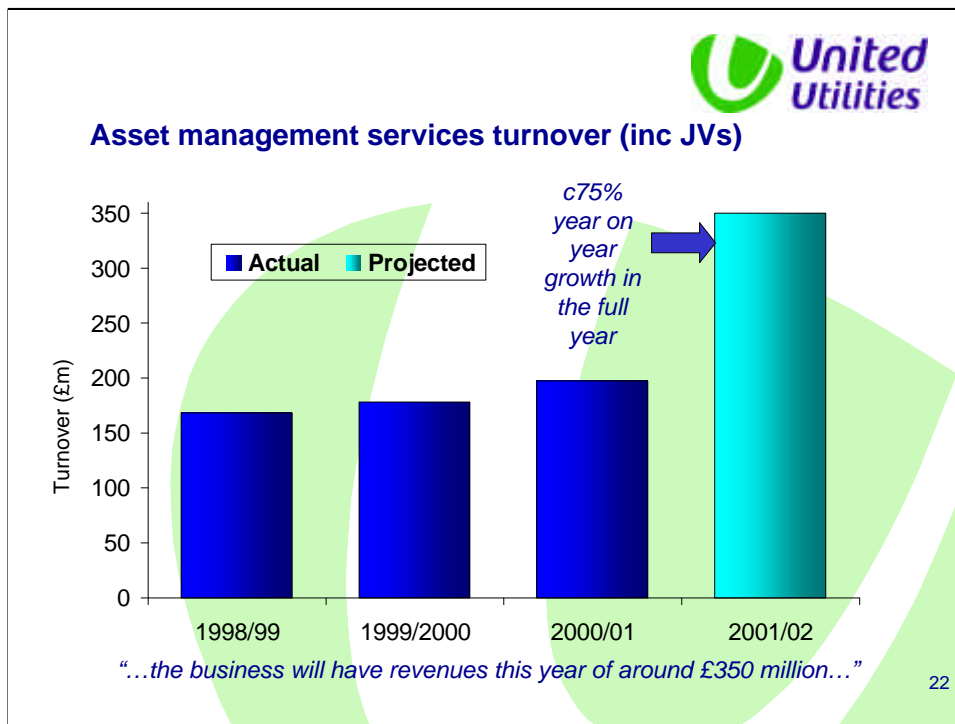
We've demonstrated progress across all of our growth businesses, with increased sales and improved results.

## Delivering growth...

- **Asset management services**
  - sales nearly doubled to £175m
  - operating profit\* increased by 25% to £15m
    - reflecting start-up costs
  
- **Customer management outsourcing**
  - sales increased by 39% to £134m
  - operating profit\* increased by 73% to £7m
  - operating margin\* increased from 4.1% to 5.1%
  
- **Telecommunications**
  - sales increased by 42% to £75m
  - EBITDA positive on a month by month basis

\* excluding goodwill

So let's have a look at each of these businesses in turn. First, asset management services.



You can see from the graph how the business has grown over the last few years. The £350 million we're expecting for sales at the full year will mean it will have grown by 75 per cent year on year.

## Asset management services - operations management

- Welsh Water
  - first opportunity from financial restructuring in the water industry
    - invaluable experience for United Utilities as a first mover
  - greater involvement in capital maintenance programme will lead to higher revenues than expected
  - procurement now more centralised
    - economies of scale in Welsh Water and United Utilities Service Delivery

23

In operations management, our contract with Welsh Water continues to perform well. This is the first operations contract to come out of a financial restructuring initiative in the water industry, and the experience for United Utilities as a first mover in this process has been invaluable. As Simon said, we've been boosted by a greater involvement in their capital maintenance programme than we originally anticipated. Our partnership approach with Glas Cymru is providing benefits for both parties.

We're also changing the procurement philosophy to make it more centralised. This will give us purchasing economies of scale not only at Welsh Water but also within our own licensed multi-utility operations business.

## Asset management services - operations management

- Central and Eastern Europe
  - good progress sustained in existing concessions operated in joint venture with International Water
  - further opportunities expected in second half of current financial year
  
- Argentina
  - continued effects of recession and country's financial crisis
  - countered by a radical cost-cutting programme
  - financial performance expected to improve

24

Our operations, in joint venture with International Water, in central and eastern Europe continue to perform well. We're expecting further opportunities to come to market later in this financial year.

In Argentina, the continued effects of recession and the country's financial crisis are being countered by a radical cost-cutting programme. This is expected to improve financial performance.

## Asset management services

- Green energy
  - currently 40 commissioned schemes with 70MW capacity
    - 5 schemes with 6 MW commissioned in period
  - development pipeline
    - 40 further landfill gas/hydro schemes with 70MW capacity
    - option secured to develop 10MW onshore wind farm in Wales
    - in addition to option for 60MW offshore wind scheme
- Networks
  - £2m multi-utility connections contract for Manchester Commonwealth Games stadium completed ahead of schedule
    - electricity, gas, water and telecoms infrastructure

25

Our green energy business continues to grow rapidly. We commissioned 5 schemes in the period with a capacity of 6 megawatts. This brings the total commissioned schemes to around 40 with a 70 megawatt capacity.

There are another 40 schemes in the development pipeline which will bring another 70 megawatts on line. We've also secured an option for a 10 megawatt onshore wind farm in Wales. This, together with the 60 megawatt offshore scheme we were awarded earlier this year, shows that wind power will be a major growth area within our green energy business.

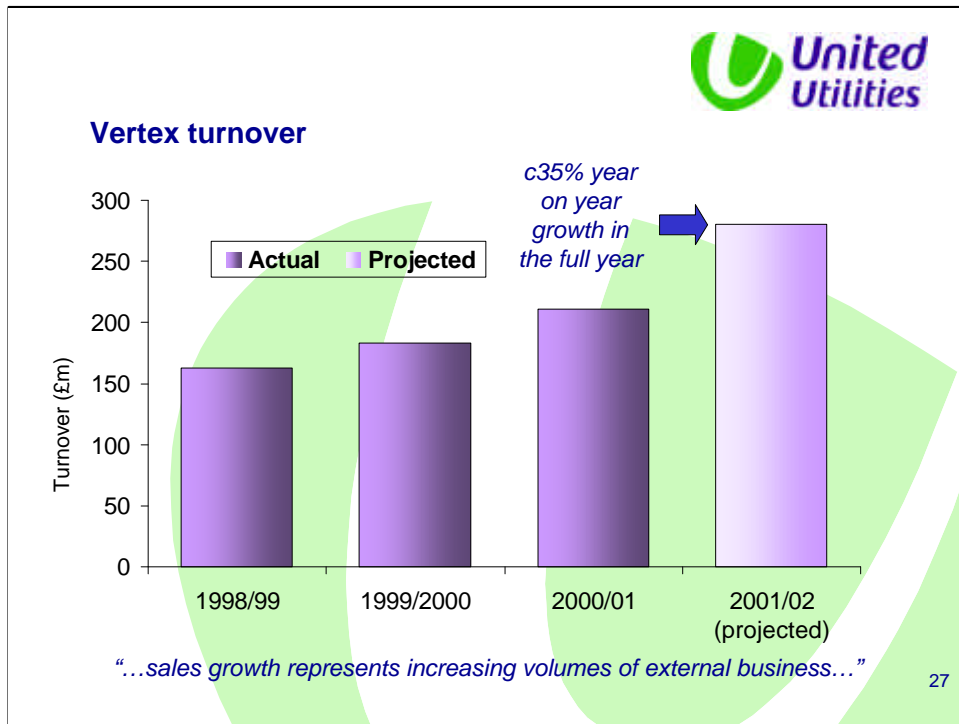
United Utilities Networks completed a £2 million multi-utility connections contract ahead of schedule at the prestigious Commonwealth Games stadium in Manchester.

## Delivering growth...

- **Asset management services**
  - sales nearly doubled to £175m
  - operating profit\* increased by 25% to £15m
    - reflecting start-up costs
- **Customer management outsourcing**
  - sales increased by 39% to £134m
  - operating profit\* increased by 73% to £7m
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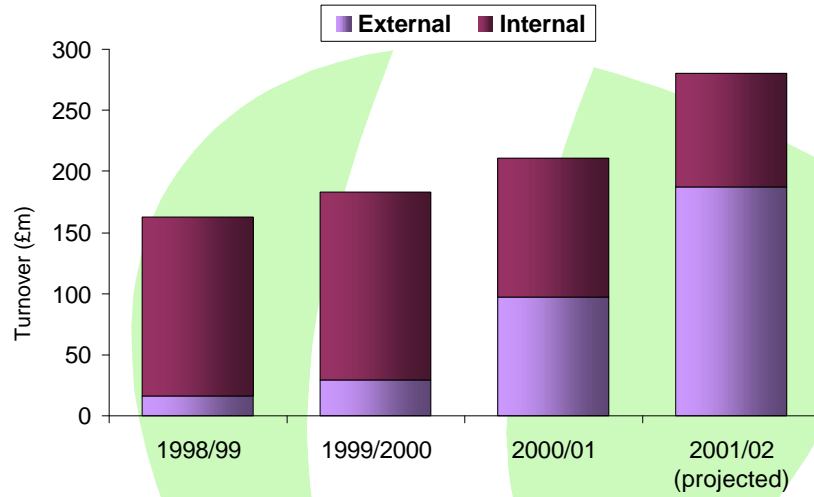
\* excluding goodwill

Turning now to the progress we've made with Vertex.



You can see from the graph how its sales have progressed over the last few years. We posted an increase of nearly 40 per cent at the half year and we expect a similar level of growth at the full year.

### Vertex turnover - external/internal analysis



*"...around two-thirds of turnover is currently external to the group..."*

28

What's been very pleasing to see is the progress the business has made in diversifying its business away from its original internal utility contracts. In the half year, around two-thirds of turnover was external to the group.

## Vertex

- Operating margin\* increased from 4.1% to 5.1% reflecting
  - increasing maturity of external contract portfolio
  - cost reductions on internal contracts
- New contracts mobilised successfully
  - Marks & Spencer and Companies House
    - financial services - contract with major UK insurance company
      - first success in financial services
      - diversifying contract portfolio further
  - Major local authority
    - advanced negotiations for £10m 5-year contract
  - TXU contract
    - substantially through transition phase
    - support for Staywarm marketing initiative

\* excluding goodwill

29

What's also been very pleasing about the performance of the business is the growth in operating margin from 4.1 per cent last year to over 5 per cent in the current year. This reflects the increasing maturity of the existing contract portfolio and cost reductions on internal contracts.

New contracts secured at Companies House and Marks and Spencer started up successfully in the period and are performing well.

Vertex was awarded a small contract to provide customer services for a major UK insurance company. This is its first success in securing work in the financial services market and demonstrates further progress in diversifying its contract portfolio away from the utilities sector. Operations commenced in October and are going well.

The business is also in the advanced stages of contract negotiations for a £10 million, five-year contract with a major local authority. This is an important further step in developing Vertex's public sector activities.

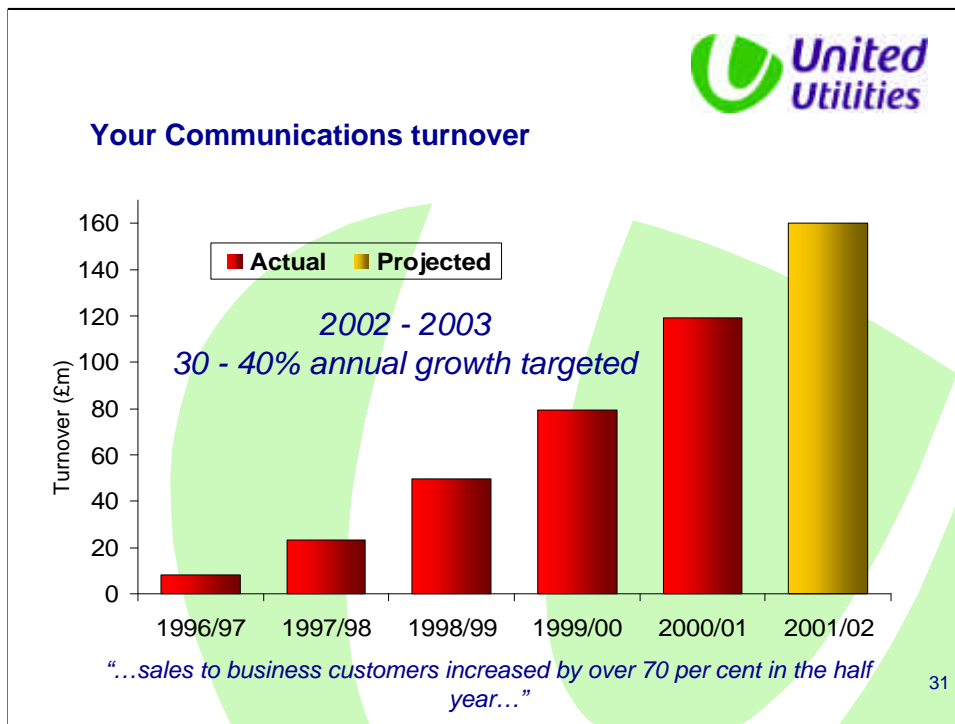
The TXU contract is now well through its transition phase and Vertex is supporting TXU in its Staywarm marketing initiative.

## Delivering growth...

- **Asset management services**
  - sales nearly doubled to £175m
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    - reflecting start-up costs
- **Customer management outsourcing**
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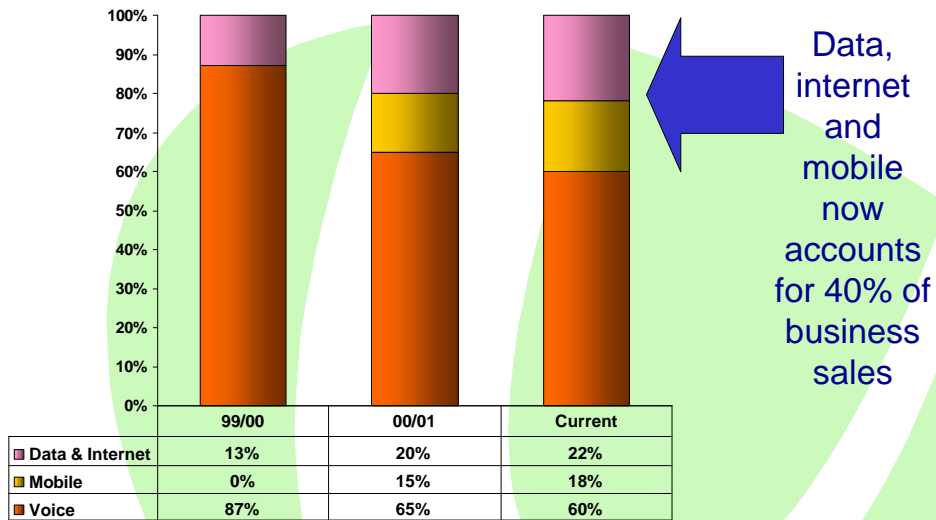
Finally in this section, telecoms.



Here, again you can see the progress that Your Communications has made in growing its revenues.

We're targeting 30 to 40 per cent into the medium term.

### Your Communications turnover - business sales analysis



Source: current run rates

32

So it's growing its sales quantity rapidly. And the quality of that income stream is growing as well. Sales to business customers increased by over 70 per cent in the half year. You can see from this slide that the sales mix has changed as well.

Currently around 40 per cent of business sales are added value services - mobile, data and internet.

## Telecommunications

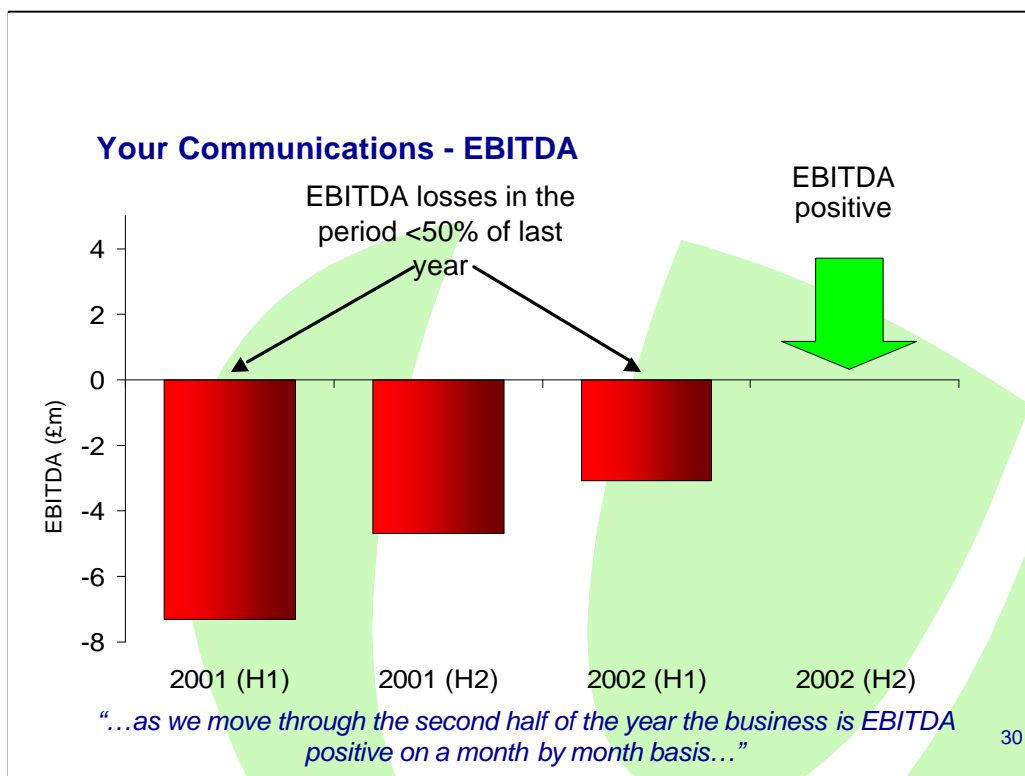
- Broadband wireless access licences
  - accelerates multi-regional network roll-out
  - connects customers more quickly and cost-effectively
  - five base stations connected in the period
    - four more over next three months
- Operating loss\* reduced year on year
  - contributions feeding through from higher revenues as customer base is growing and value-added sales are increasing

\* excluding goodwill

33

The broadband wireless access licences are accelerating the multi-regional network roll-out. They enable new customers to be connected more quickly and cost-effectively than ever before. Five base stations were connected in the period, with a further four scheduled in the next three months.

Operating losses in the period were lower than last year and will reduce further as contributions feed through from higher revenues as the customer base is grown and increased value-added sales are secured.



As you can see from the slide, EBITDA losses were around £3 million for the period, significantly lower than last year and the trend is clear over the last eighteen months since Hugh Logan came on board.

As the business moves through the second half of the year it is EBITDA positive on a month by month basis.

## Looking ahead

- Vertex and United Utilities Contract Solutions
  - highly visible income streams
  - based substantially on long-term operations
- Your Communications
  - stock market conditions have been highly volatile
  - business developing in a measured and focused way
- Recent global events
  - businesses not immediately affected
  - no market evidence of a significant reduction in future opportunities available

35

Looking ahead, both Vertex and United Utilities Contract Solutions have highly visible income streams based substantially on long-term operations.

Stock market conditions in the telecoms sector have been highly volatile and outside our control. What has been within our control is to develop Your Communications in a measured and focused way.

None of these businesses has been immediately affected adversely by recent global events, and there is no market evidence of a significant reduction in the future opportunities available to them. So that's our growth businesses.

## Delivering efficiency ...

### Licensed multi-utility operations

- Sales increased by 1% despite
  - 1% real reduction in water and wastewater prices
  - 3% real reduction in electricity distribution prices
  - in line with outcome of 1999 regulatory price reviews
  
- Operating profit increased by 5%
  - reflecting continuing implementation of operating cost reduction programme
    - £15m year on year reductions in period
    - on track for £30m target for full year

I'd like now to talk about our licensed business, which has made good progress in delivering efficiency.

As Simon said, sales increased by 1 per cent and operating profit increased by 5 per cent. The continuing implementation of the cost reduction programme delivered £15 million real cost reductions in the period which more than offset the regulatory price reductions. The business is on target to achieve at least £30 million of further annual cost reductions during the current year.

## Capital programme - new cost savings initiatives

- New initiatives are now benefiting capital programme
  - design and procurement standardisation
- 750 water and wastewater treatment works
  - low degree of standardisation currently
- Cost of treatment works
  - c70% of AMP3 capital investment
  - c70% of direct operating costs
- New asset standards for all projects within AMP3 programme
  - use of generic solutions
  - use of standard plant and equipment configurations

*“...high volume of AMP3 projects creates the opportunity to increase efficiency...”*

37

New cost savings initiatives in the period have had particular potential benefits for the capital programme.

We've already made considerable progress in developing a more rigorous approach to design standardisation. This, in turn, will lead to greater opportunity to standardise procurement requirements, which will enhance the ability of the business to deliver substantial economies.

For example, we have around 750 water and wastewater treatment works with very little standardisation across them at the moment.

If we look at AMP3, around 70 per cent of our capital investment and the same proportion of our direct operating costs will be spent on these treatment works.

So we've put in place new asset standards for all projects within the AMP3 programme. And we're developing generic solutions to help us deliver standard plant and equipment configurations.

The high volume of AMP3 projects creates the opportunity to increase efficiency.

## Economies in procurement pricing e.g. - ammonia standards at wastewater treatment works

- Pioneering use of reverse auctions hosted by Eutilia
  - web portal in which United Utilities is founder shareholder
- Notice of intention to buy whole AMP3 nitrifying trickle filter requirement posted on Eutilia
- Fixed limited auction time
  - usually <3 hours
  - suppliers submit unlimited number of bids and counter-bids

*“...this web-based reverse auction resulted in cost savings of approaching 20% compared with conventional procurement channels...”*

38

For example, having looked at the effect of ammonia standards across AMP3, we were now in a position to estimate our procurement requirement for nitrifying trickle filters up to 2005. When it came to actually buying them, we used a reverse auction hosted by Eutilia, the web portal in which we are a founder shareholder.

We posted a notice of intention to buy the filters on Eutilia, including the specification of quantity and technical requirements.

The whole auction process took about three hours and suppliers could submit as many bids and counter-bids as they liked. Everyone could see what everyone else was bidding.

At the end of the process, this web-based reverse auction resulted in cost savings approaching 20 per cent, compared with conventional procurement channels. And it has a much wider potential application than has yet been achieved.

## AMP3 capital programme - the next stage

- Significant cost savings already achieved
  - wider potential application
- Extension of generic solutions to cover c70 large treatment works
- Standardise treatment works to achieve procurement economies of scale
  - continuous sand filters
  - rapid gravity sand filters
  - biologically activated flooded filters
  - UV treatment equipment
- Standardisation allows better planning for
  - manpower and training, logistic support, spares management, chemical dosing and energy consumption

39

So what does all this mean for our capital programme going forward?

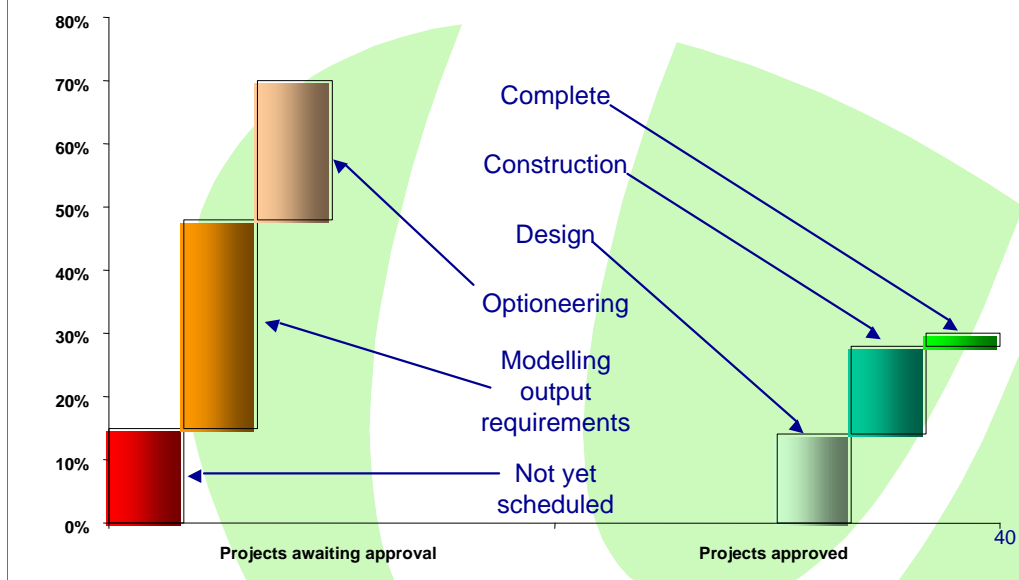
Our standardisation processes have already yielded significant cost savings and have a much wider potential application.

We've expanded our generic solutions to standardise around 70 large treatment works and this will help us to achieve further economies for equipment such as sand filters, flooded filters and UV treatment equipment.

It also allows us to plan better for manpower needs and to manage our operating cost base much more efficiently.

And where are we up to now?

## AMP3 capital programme - the current position



Well, it's still early days - we're only eighteen months into AMP3.

We're in line with the phasing agreed at the final determination so around 15 per cent is not yet scheduled for progression.

Around one third is at the needs and strategy stage - this is where we've identified the problem to be resolved and what level of priority it demands in the overall programme.

A further 22 per cent is at the optioneering stage. This is where we assess the range of options available to resolve the problem. Once the preferred option is chosen, the project is approved for design and construction. In total, 70 per cent of our capital programme has yet to pass this stage.

Of the 30 per cent that has been approved, 28 per cent is in design or construction. This leaves only 2 per cent is actually fully complete.

I know you'd just like me to give you a number for capex efficiencies but it's too early in the regulatory period to project the level of savings. What I will say is that we're targeting significant outperformance against the AMP3 allowance.

# Delivering growth & efficiency

*“...a strategy that is achieving results...”*

41

So, as you can see our strategy is achieving results and delivering both growth and efficiency.

## Water industry capital restructuring

- Debate concerning new capital structures has continued over the last six months
- We will continue to review implications of any developments against the background of the long-term demands for capital investment in the industry
- A substantial equity component may well continue to be needed if debt is to be financed - and refinanced - efficiently and economically given the current allocation of risk among the industry's stakeholders
- Restructuring will open up opportunities for us to further our strategy

42

Against this background, I'd like to say a few words about the ongoing debate within the water industry about new capital structures.

Our position is straightforward. We'll continue to review the implications of any developments against the background of the long-term demands for capital investment in the industry.

We believe that a substantial equity capital component may well continue to be required if the increasing debt requirements of the industry are to be financed and refinanced, efficiently and economically, given the current allocation of risk among the industry's stakeholders.

And, of course, restructuring will provide further opportunities for our Contract Solutions business to compete for O&M contracts.

## Delivering growth and efficiency...

- We can deliver additional benefits through our multi-utility strategy
  - more savings to be secured in operational and capital efficiency
- We are confident we can provide good rewards for our equity investors based on
  - our current strategy
  - our current equity structure
- A strong foundation to grow our business
  - whilst retaining the flexibility to fund future development

*“...for the long-term benefit of all our stakeholders...”*

43

So, we will continue to deliver additional benefits through our multi-utility strategy. I believe there are more savings yet to be secured in terms of both operational and capital efficiency.

We are confident of our ability to provide good rewards for our equity investors based on this strategy.

Looking to the future, our current equity-based structure provides a strong foundation to grow our businesses whilst retaining the flexibility to fund the future development of the group for the long-term benefit of all our stakeholders.

## Significant progress

- United Utilities Contract Solutions and Vertex
  - 31% of turnover comes from these growth businesses
  - significant increases in profitability
- Your Communications
  - sales have increased by 42%
  - set to become EBITDA positive on a month by month basis
- Licensed multi-utility operations
  - identifying effective ways to exploit new technologies to achieve capex efficiencies

*“...delivering growth and efficiency...”*

44

To wrap up on my section of the presentation, it's been a period of significant progress.

More than 30 per cent of our sales now come from Vertex and Contract Solutions and we've posted a significant increase in the profitability of those businesses.

Your Communications has increased turnover by more than 40 per cent and is EBITDA positive on a month by month basis as we move through the second half of the year.

In our licensed businesses, we've been working hard to identify effective ways of exploiting new technology to achieve capex efficiencies and it's starting to yield significant savings.

As I said at the start, we're delivering growth and efficiency.

## Looking ahead

- Uncertainties for the UK economy
- Our monopoly regulated businesses enter this period with
  - highly predictable revenues
  - fixed by regulatory reviews up to 2005
  - expectation of out-performance
    - operating and capital expenditure

*“...our earnings and dividend prospects are sound...”*

45

Looking ahead, there are obvious uncertainties for the UK economy.

But our monopoly regulated businesses enter this period with the sound platform of highly predictable revenues, fixed by regulatory reviews up to 2005. Given these predictable revenues, and our expectation of outperformance of our regulatory cost targets, we believe that our earnings and dividend prospects are sound.

## Highlights

- **Profit\* before tax**
  - increased by 8% to £164m
- **Asset management services**
  - sales nearly doubled to £175m
- **Customer management outsourcing**
  - sales increased by 39% to £134m
- **Licensed multi-utility operations**
  - operating profit increased by 5% to £262m
- **Telecommunications**
  - turnover increased by 42% to £75m
- **Earnings per share\*\* increased by 7%**
- **Interim dividend increased by 2%**

\* excluding discontinued activities, exceptional items and goodwill

\*\* adjusted for discontinued activities, exceptional items, goodwill and deferred taxation

46

Thank you. We'll now take questions.



## Supporting information

### Licensed multi-utility operations turnover

£m	2000	Price	Volume	2001
Water and wastewater	470	12	(5)	477
Electricity distribution	122	-	2	124
	<hr/> 592	<hr/> 12	<hr/> (3)	<hr/> 601

### Water and wastewater expenses

£m	2001	2000
Depreciation	70	60
Infrastructure renewals	51	50
Customer initiatives	2	2
Other costs	147	158
Total costs	<u>270</u>	<u>270</u>

### Electricity expenses

£m	2001	2000
Depreciation	23	27
Other costs	46	45
Total costs	<u>69</u>	<u>72</u>