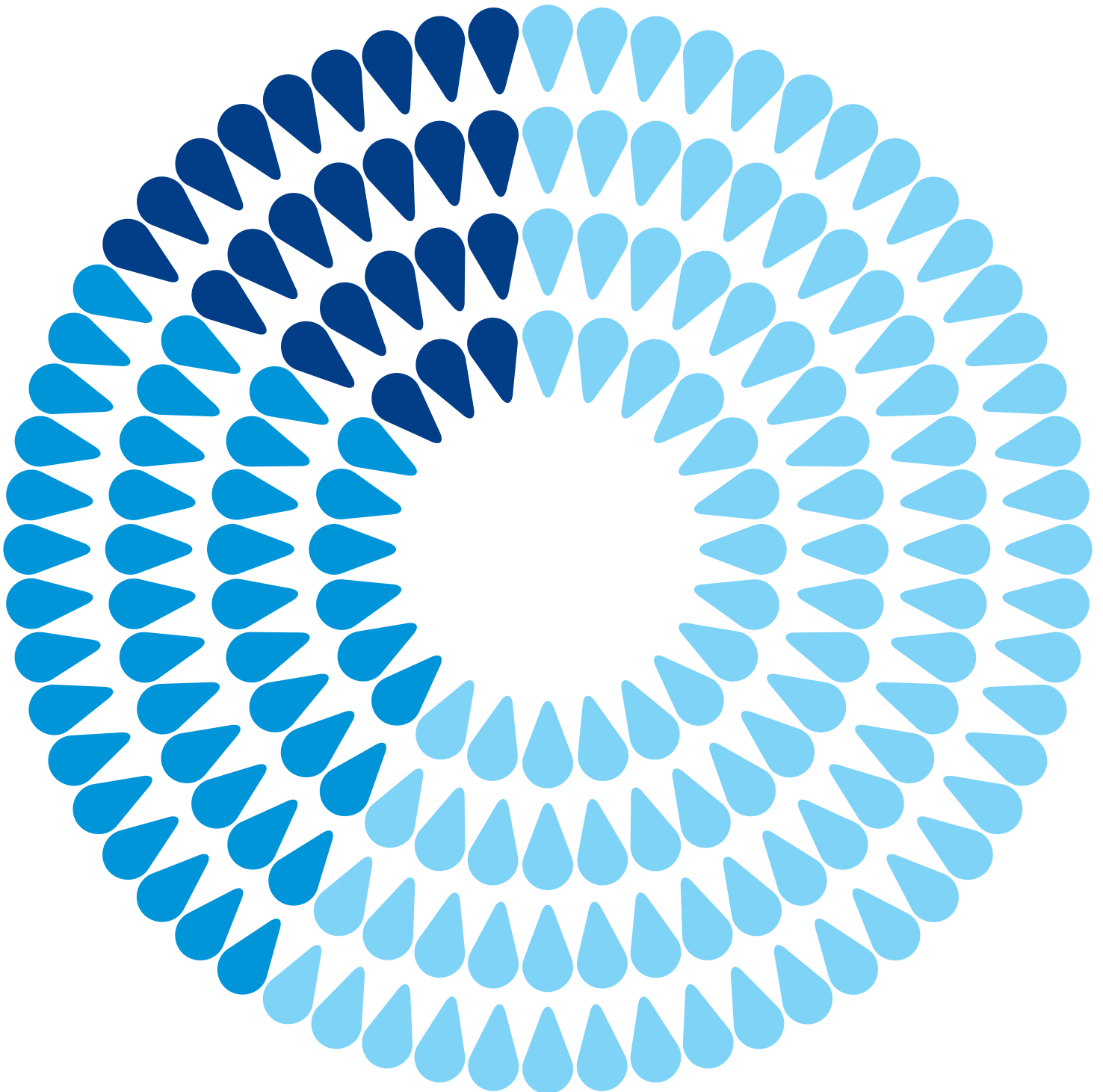


2008 Investor Survey

A report by Indepen for Water UK

Appendix B: Survey Results

March 2008



Appendix B – 2008 Investor Survey Results

3.1 General financing and valuation issues

3.1.1 Premium to RCV

How important are the following drivers of current premiums of quoted water company market values to their regulatory capital value (RCV)? (36 responses)

	Dominant determinant	Significant determinant	Relevant determinant	Occasional relevance	Not at all
Opex and capex outperformance	3%	17%	39%	36%	6%
Financing outperformance	22%	53%	22%	3%	0%
Stable regulatory regime	42%	28%	17%	8%	6%
Demand side issues (eg infrastructure funds)	42%	33%	14%	6%	6%

How do you expect this premium ratio to move over the next five years? (34 responses)

	Percentage
Up	0%
Stable	29%
Down	53%
No view	3%
Unsure	15%

On a scale of 1-5, to what extent do you use the following general criteria when deciding whether to invest in a conventionally geared water company? (Assuming gearing of 55-65%; 30 responses)

	2008	2005
Quality of management	3.97	4.24
Size of the future capital programme	3.93	3.71
Potential for outperformance	3.70	3.54
Earnings record	3.37	2.95
Degree of diversification	3.00	3.49

On a scale of 1-5, to what extent do you use the following financial criteria when deciding whether to invest in a conventionally geared water company? (Assuming gearing of 55-65%; 36 responses)

	2008	2005
PMICR	3.73	3.78
Credit rating	3.38	3.08
Historic cost interest cover	3.07	3.04
Dividend growth	3.03	3.56
Dividend cover	2.79	3.44
Dividend yield	2.76	3.28
Price earnings ratio	1.63	1.70

3.1.2 Prospects for funding

How does the current average cost of debt finance compare to 2004-05? (36 responses)

	Percentage
Higher	53%
Similar	17%
Lower	25%
No view	6%

Do you have any concerns for the long term funding of the UK water industry? (36 responses)

	Percentage
Yes	36%
No	61%
No view	3%

Can you conceive of circumstances in which debt markets might not provide all the remaining funds needed by water companies? (36 responses)

	Percentage
Yes	67%
No	31%
No view	3%

Over the next five years do you expect any water companies to announce rights issues or reduce dividends to fund their capital programmes? (35 responses)

	Percentage
Yes	40%
No	40%
No view	20%

Will it be a major source of funds? (35 responses)

	Percentage
Yes	9%
No	86%
No view	6%

If one were announced what would your reaction to a potential issue be? (35 responses)

	Percentage
Positive	20%
Neutral	23%
Negative	46%
No view	11%

3.1.3 Perspectives on industry trends

What do you think of the trend of more water companies being held privately? (36 responses)

	Percentage
Positive	31%
Neutral	31%
Negative	31%
No View	8%

How important is it to ensure quoted equity can continue to play a role in financing water companies? (35 responses)

	Percentage
Not important	23%
Marginally important	29%
Important	26%
Very important	23%
No view	0%

Does the type of equity owner affect your debt investment decisions? (10 responses)

	Debt
Yes	70%
No	30%
No view	0%

What do you think of the trend towards higher gearing in the water sector? (36 responses)

	Percentage
Positive	28%
Neutral	42%
Concerned	25%
No view	6%

3.2 Risk

3.2.1 Relative risk

Is investment in the UK water sector more or less risky compared with the following?

	Less risky	On a par	More risky	No view
Average UK market	100%	0%	0%	0%
UK electricity generation	92%	6%	3%	0%
UK energy supply/retail	92%	3%	6%	0%
BT	86%	6%	3%	6%
BAA	78%	11%	6%	6%
EU utilities	76%	12%	3%	9%
National Grid	36%	33%	31%	0%
UK electricity distribution	27%	38%	35%	0%
UK gas distribution	27%	38%	35%	0%
UK gas transmission	17%	44%	39%	0%
UK electricity transmission	8%	44%	47%	0%

Do you think investing in WoCs is more or less risky than investing in WaSCs? (36 responses)

	Percentage
Less risky	25%
On a par	25%
More risky	36%
No view	14%

3.2.2 Key risks and changes since PR04

Which of the following are key risks currently facing water companies? (37 responses)

	Regulatory	Management	Force majeure	Political
Yes	78%	78%	59%	49%
No	19%	19%	38%	49%
No view	3%	3%	3%	3%

Could you rank the top risks in order of most importance? (30 responses)

	Most important	2	3	4
Regulatory	72%	7%	3%	17%
Management	20%	16%	56%	8%
Political	12%	12%	29%	47%
Force majeure	0%	72%	6%	22%

How have political, regulatory, management and force majeure risks changed since PR04? (34 responses)

	Increased	On a par	Decreased	No view
Regulatory	57%	26%	17%	0%
Political	43%	43%	11%	3%
Force majeure	41%	53%	6%	0%
Management	26%	46%	29%	0%

3.3 Regulatory regime

3.3.1 General views on the regime

Please evaluate the following statements on the regulators current performance (36 responses)

	Strongly agree	Agree	Neither	Disagree	Strongly disagree
Water companies' ability to finance	47%	44%	3%	6%	0%
Transparent process	33%	50%	8%	8%	0%
Balance between customers' and investors' interests	14%	61%	17%	8%	0%
Listening to investors	11%	49%	26%	14%	0%
Policy signalling and consistency	11%	56%	11%	19%	3%
Independence of political influence	8%	42%	33%	17%	0%

3.3.2 PR09

Views on Ofwat consultation on its PR09 methodology and proposals (36 responses)

	Summary	Positively	Neutral	Negatively	Need more info	No view
How do you view Ofwat's recent consultation on its methodology?	Slightly negative	28%	28%	36%	na	8%
Specific proposals						
- revenue corrected price control	Positive	58%	11%	19%	8%	3%
- proportion of index linked debt	Slightly Positive	33%	25%	25%	14%	3%
- menu regulation	Mixed and more info	22%	11%	25%	39%	3%
- no small company premium	Slightly negative	17%	29%	31%	9%	14%
- removal of notified items	Negative	17%	25%	47%	6%	6%
- no need for financeability uplifts	Negative and more info	14%	19%	31%	31%	6%
- shorter term evidence for the WACC	Negative	14%	6%	64%	14%	3%
- linking WACC to a market measure	Negative and more info	11%	6%	56%	28%	0%
- competition proposals	Negative	8%	11%	58%	19%	3%

3.3.3 Cost of capital

What WACC do you think Ofwat will set? (Assuming gearing of 55-65%; 18 responses)

	Percentage
4.20%	6%
4.30%	6%
4.40%	6%
4.50%	39%
4.60%	17%
4.70%	17%
4.80%	6%
4.90%	6%

What level of gearing do you think Ofwat should assume for its WACC calculation? (27 responses)

	Percentage
55 - 65	89%
65 - 75	11%

In future should the Regulator continue to apply the small company premium? (26 responses)

	Percentage
Yes	35%
No	23%
No View	42%

3.3.4 Financeability

What credit rating should Ofwat assume in setting prices? (32 responses)

	Percentage
BBB	6%
BBB+	50%
A-	34%
A	6%
A+	3%

What should be the Ofwat response to breaches in key financial ratios? (35 responses)

	Percentage
No action	3%
PR04 financeability	9%
NPV financeability	11%
% index linked debt	14%
Increase the WACC	20%
Combination of above or other	43%

Do investors believe it is important for Ofwat to set prices consistent with rating agency views on investment grade credit ratings? (34 responses)

	Percentage
Yes	85%
No	15%
No view	0%

3.3.5 Competition

What form of competition would be desirable? (29 responses)

	Percentage
None	45%
Outsourcing	21%
Wholesale	10%
Retail	7%
Other	17%

3.3.6 Mergers

What do you think about the current water merger regime? (36 responses)

	Percentage
In favour of the status quo	8%
Would like to see change	69%
Neutral	22%

Data not used in the report

Have you changed the weight of the water sector in your portfolio since 2004-05? (31 responses)

	Percentage
Increased	42%
Decreased	6%
No change	23%
Not applicable	29%

Impact of general factors on investment decisions when company securitised (35 responses)

	2008 (Sec)	2008 (Conv)
Quality of management	4.09	4.24
Size of the future capital programme	4.09	3.71
Potential for outperformance	3.71	3.54
Earnings record	3.37	2.95
Degree of diversification	3.06	3.49

Impact of financial factors on investment decisions when company securitised (34 responses)

	2008 (Sec)	2008 (Conv)
PMICR	3.94	3.78
Credit rating	3.70	3.08
HC interest cover	3.26	3.04
Dividend growth	3.24	3.56
Dividend cover	2.94	3.44
Dividend yeild	2.88	3.28
PE ratio	1.62	1.70

Is ring-fencing of the regulated water business effective? (37 responses)

	Percentage
Yes	97%
No	0%
No view	3%

Would enhanced ring-fencing further reduce the risks of investing in a water company? (32 responses)

	Percentage
Yes strongly	31%
Yes weakly	38%
Remains static	28%
Decline	3%

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