



International Accounting Standards

Presentation to Analysts and Investors

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Agenda

- Overview of IFRS
- Summary of key financial impacts

Martin Towers
Group Finance Director

- Key IFRS adjustments

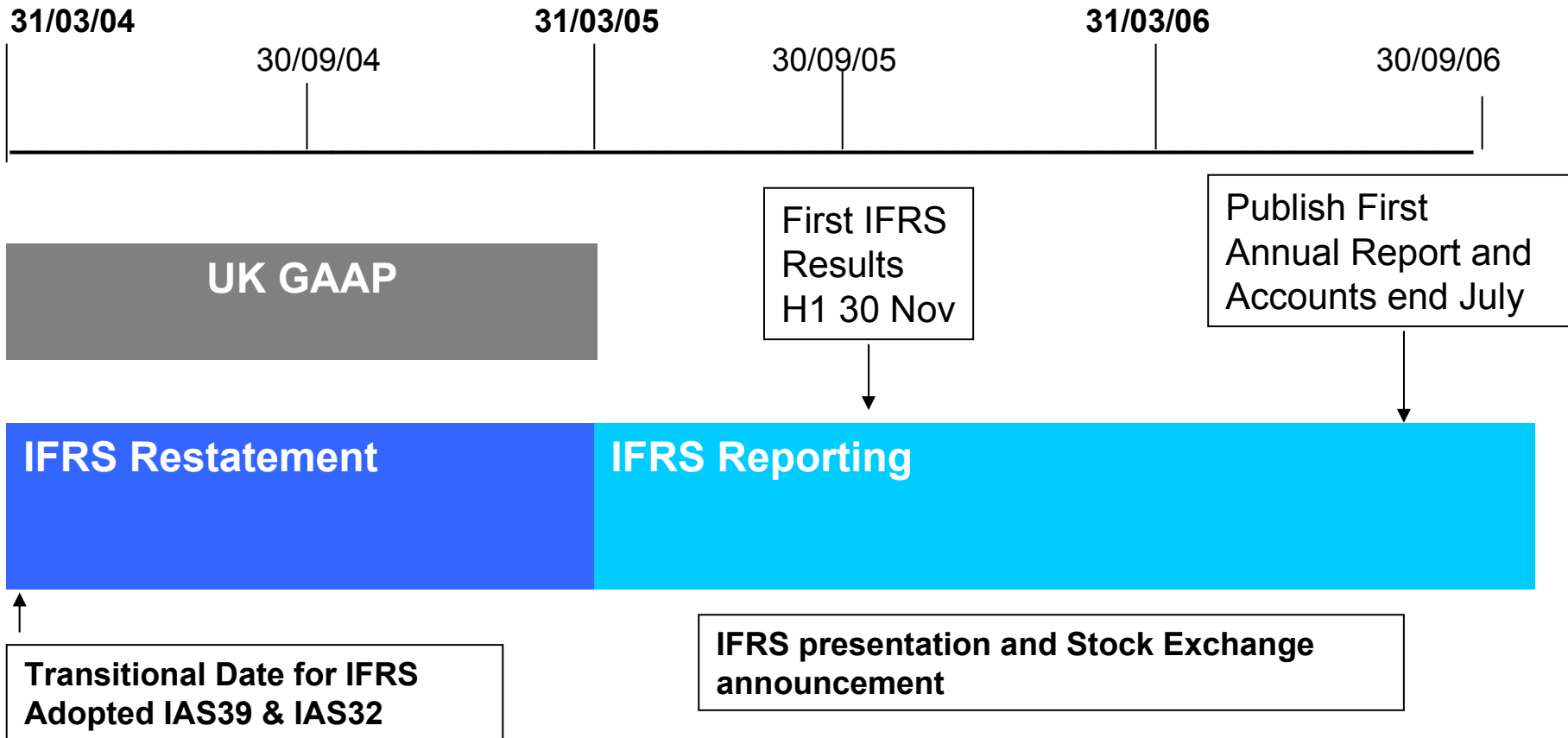
Allison Bainbridge
YW Finance Director

- Conclusions

Martin Towers
Group Finance Director

- Q & A

IFRS Conversion overview



All figures included in this presentation represent current best estimates. The figures are subject to further interpretation and change and should not be considered definitive.



Summary

- Impact on profit before tax in 2004/05 not material
- Impact on profit before tax in 2005/06 expected to be mildly positive
- Earnings affected by increase in deferred tax
- No impact on cashflow or financing arrangements
- Net assets fall from £1,786m to £1,442m (£344m) mainly due to deferred tax and pensions
- No change to YW debt to RAV
- No impact on intent going forward in AMP 4 regarding dividends



IFRS Impact Summary

	UK GAAP £'m	IFRS £'m	Movement £'m	Movement %
Year ended 31 March 2005				
Profit before tax *	211.2	206.9	(4.3)	(2)
Profit after tax	174.2	150.2	(24.0)	(14)
<hr/>				
Adjusted EPS (pre deferred tax and exceptionals)	53.2p	52.1p	(1.1)p	(2)
Basic EPS	47.0p	40.5p	(6.5)p	(14)

- Little impact on profit before tax

* Includes £0.8m reclassification of Associates and JV taxation



IFRS Impact Summary

	UK GAAP £'m	IFRS £'m	Movement £'m	Movement %
As at 31 March 2005				
Net assets	1,786.3	1,442.2	(344.1)	(19)
Net debt	1,763.1	1,763.7	0.6	
Gearing	50%	55%		

- Significant impact on net assets
- No change to YW debt to RAV

Key IFRS adjustments impacting on financial statements



- **Infrastructure Accounting (IAS 16)**
- Deferred tax (IAS 12)
- Accounting for defined benefit pension schemes (IAS 19)
- Goodwill amortisation (IFRS 3)
- Retranslation of goodwill (IAS21)
- Dividends (IAS 10)
- Share-based payments (IFRS 2)
- Financial instruments (IAS 39)



Infrastructure Accounting (IAS 16)

UK GAAP (FRS 15)

- Smoothed charge based on Ofwat 15 year asset management plan
- Depreciation based on estimated annual expenditure required to maintain the network
- Actual expenditure to enhance network capitalised as incurred

IFRS

- Infrastructure Renewals Charge (IRC) replaced by operating costs and depreciation
- Ofwat continues to base price limits on Infrastructure Renewals Accounting

Infrastructure Renewals Accounting not permitted under IAS 16

Infrastructure Accounting (IAS 16)

Impact on Profit and Loss



	2004/05
	£m
UK GAAP	
Infrastructure renewals charge	<u>40.4</u>
IAS16	
Depreciation	18.4
Operating charges	<u>28.8</u>
Total impact	<u>47.2</u>
Additional charge under IAS 16 in 2004/05	<u>(6.8)</u>

- Step change in IRC expected beyond 1 April 2005
- 2005/06 impact of IAS 16 projected to be mildly positive



Infrastructure Accounting (IAS 16)

Impact on net assets

- Opening balance sheet value for infrastructure assets estimated fair value at 1 April 2004
- Increases net assets by £62.3m at 1 April 2004 (£89.0m before deferred tax)

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- **Deferred tax (IAS 12)**
- Accounting for defined benefit pension schemes (IAS 19)
- Goodwill amortisation (IFRS 3)
- Retranslation of goodwill (IAS 21)
- Dividends (IAS 10)
- Share-based payments (IFRS 2)
- Financial instruments (IAS 39)



Deferred Tax (IAS 12)

- Discounting of deferred tax no longer permitted increases 2004/05 charge by £23.7m.
- Deferred tax restatements on other IFRS adjustments reduce 2004/05 deferred tax charge by £4m.
- Loss of discounting reduces basic EPS by 6.4p.
- Net assets reduced by:

£351.7m	31 March 2004
£375.0m	31 March 2005

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- Deferred tax (IAS 12)
- **Accounting for defined benefit pension schemes (IAS 19)**
- Goodwill amortisation (IFRS 3)
- Retranslation of goodwill (IAS 21)
- Dividends (IAS 10)
- Share-based payments (IFRS 2)
- Financial instruments (IAS 39)



Pension Scheme Accounting (IAS 19)

UK GAAP Policy (SSAP 24)

- Profit and loss reflects service costs and spreading of surplus/deficit

IFRS Policy (IAS 19)

- Pension scheme surplus or benefit to be recognised as an asset or liability
- Separate recognition of service costs and financing costs in income statement
- Determination allows funding for 50% of deficit

Pension Scheme Accounting (IAS 19)



Financial impact 2004/05

- Operating profit - £1.2m lower
- Profit before tax - £0.5m higher after net finance income of £1.7m
- 2005/06 impact expected to be mildly positive as deficit no longer charged to profit and loss
- Deficit of £103.8m recognised at 31 March 2005
- Net assets reduced by £62.4m including deferred tax asset

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- Deferred tax (IAS 12)
- Accounting for defined benefit pension schemes (IAS 19)
- **Goodwill amortisation (IFRS 3)**
- Retranslation of goodwill (IAS 21)
- Dividends (IAS 10)
- Share-based payments (IFRS 2)
- Financial instruments (IAS 39)



Goodwill Amortisation (IFRS 3)

- Goodwill not amortised – subject to annual impairment test
- Aquarion goodwill not amortised - impairment tests already made
- Value of goodwill at 1 April 2004 adopted as fair value of goodwill
- £1m goodwill charged under UK GAAP written back to profit and loss

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- Deferred tax (IAS 12)
- Accounting for defined benefit pension schemes (IAS 19)
- Goodwill amortisation (IFRS 3)
- **Retranslation of goodwill (IAS 21)**
- Dividends (IAS 10)
- Share-based payments (IFRS 2)
- Financial instruments (IAS 39)

Retranslation of goodwill (IFRS 1/IAS 21)



- Goodwill on consolidation of Aquarion restated into US dollars
- Retranslation at each balance sheet date
- Impact on net assets at 31 March 2005 £35.5m

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- Deferred tax (IAS 12)
- Accounting for defined benefit pension schemes (IAS 19)
- Goodwill amortisation (IFRS 3)
- Retranslation of goodwill (IAS 21)
- **Dividends (IAS 10)**
- Share-based payments (IFRS 2)
- Financial instruments (IAS 39)



Dividends (IAS 10)

- Dividends not recognised until declared, normally after balance sheet date
- Dividends no longer recognised as a liability at the balance sheet date – increase in net assets at 31 March 2005 £76.9m
- Dividends no longer shown on face of income statement - now reported in Statement of Recognised Income and Expense (SORIE)

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- Deferred tax (IAS 12)
- Accounting for defined benefit pension schemes (IAS 19)
- Goodwill amortisation (IFRS 3)
- Retranslation of goodwill (IAS 21)
- Dividends (IAS 10)
- **Share-based payments (IFRS 2)**
- Financial instruments (IAS 39)

Share-based payments (IFRS 2)



- UK GAAP recognised LTIP costs but not SAYE scheme costs before 1 April 2005
- IFRS introduces an expense on SAYE schemes over the vesting period
- Introduction of FRS 20 brings UK GAAP into line with IFRS from 1 April 2005 so no UK GAAP/IFRS differences thereafter
- One off £1m positive impact in 2004/05 from issue of shares under SAYE schemes at below book value

Key IFRS adjustments impacting on financial statements



- Infrastructure Accounting (IAS 16)
- Deferred tax (IAS 12)
- Accounting for defined benefit pension schemes (IAS 19)
- Goodwill amortisation (IFRS 3)
- Retranslation of goodwill (IAS 21)
- Dividends (IAS 10)
- Share-based payments (IFRS 2)
- **Financial instruments (IAS 39)**



Financial Instruments (IAS 39)

- Group uses derivative financial instruments to manage exposure to foreign exchange and interest rates
- Derivative financial instruments accounted for at fair value (marked to market)
- Marginal impact on group (£8.1m reduction in net assets at 31 March 2005)

Interest rate swaps on finance leases

- Interest rate swaps (hedge against finance lease payments) designated as cashflow hedge
- Fair value and further movements in fair value recognised directly in equity

Other derivatives

- Other derivatives classed as fair value hedge - no net impact on financial statements

Conclusions - impact on profit year to 31 March 2005



	£	£m
Profit before tax – UK GAAP*		211.2
Infrastructure accounting (IAS 16)	(6.8)	
Accounting for pensions (IAS 19)	0.5	
Goodwill amortisation (IFRS 3)	1.0	
Share-based payments (IFRS 2)	<u>1.0</u>	
		<u>(4.3)</u>
Profit before tax – IFRS*		<u>206.9</u>

• Modest increase in profit before interest and tax anticipated in 2005/06

* After reclassification of taxation on associates and joint venture £0.8m

Conclusion – movement in net assets 31 March 2005



	Unaudited 31 March 2005 £m
Net assets – UK GAAP	1,786.3
Infrastructure renewals (IAS 16)	57.5
Deferred tax (IAS 12)	(375.0)
Pensions (IAS 19)	(62.4)
Goodwill (IFRS 3)	1.0
Retranslation of goodwill (IAS 21)	(35.5)
Dividends (IAS 10)	76.9
Share-based payment (IFRS 2)	1.5
Financial instruments	<u>(8.1)</u>
Net assets – IFRS basis	<u>1,442.2</u>



Conclusions

- Impact on profit before tax 2004/05 not material £4.3m
- Expectation of mildly positive impact on profit 2005/06
- Basic EPS from 47.0p to 40.5p. Adjusted EPS from 53.2p to 52.1p
- Net assets fall from £1,786m to £1,442m
- Gearing increases from 50% to 55%
- YW debt to RAV unaffected
- No change to cashflows or dividend policy

Questions and Answers

