1 June 2006

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2006
STRONG PERFORMANCE FROM UTILITY OPERATIONS

HIGHLIGHTS

£m (except dividends)	Year ended		% Change
	31 March 2006	31 March 2005	
Revenue from continuing operations	2,387	2,104	+13%
Profit before tax[1]	481	397	+21%
Operating profit from continuing operations[2]	766	681	+12%
Net finance expense[3]	285	284	-
Total dividends per ordinary share, pence	43.87	42.43[4]	+3.4%

Basic earnings per share (pence)	Year ended	
	31 March 2006	31 March 2005
Continuing operations	37.3	34.5
Discontinued operation	(13.0)	(1.2)
Continuing and discontinued basic earnings per share	24.3	33.3

- Profit before tax[1] increased by 21% to £481 million
- Licensed multi-utility operations segmental operating profit[2] increased by 16% to £652 million
- Infrastructure management – significant 35% increase in revenue and continued profit growth
- Vertex consolidates its move into the financial services outsourcing sector
- Capital investment in the regulated businesses totalled £582 million – the sixteenth consecutive year in which the company has invested more than the profit earned
- New management to focus on service and operational improvements

Commenting, Philip Green, Chief Executive Officer, said:

"United Utilities has again delivered good profit growth. These results underline continued progress for the group and highlight the benefits of leveraging our core utility skills to secure attractive outsourcing opportunities. Looking ahead, our regulated businesses should continue to deliver strong profit growth. Our infrastructure management business has a robust order book and is well positioned to pursue further outsourcing opportunities. Vertex has good prospects, particularly in the public and financial services sectors.

"With such a firm foundation, the outlook for the group is positive. I care passionately about providing good customer service and an integral part of my leadership will be to build a culture of customer focus and operational excellence throughout the group to create a high performance company."

[1]Relating to continuing operations and before restructuring costs and the impact of IAS 39. This adjusted measure is reconciled to reported profit before tax in note 2 of this announcement
[2]References to operating profit, operating loss and operating margin and related percentage movements are stated before restructuring costs. References to segmental operating profit, segmental operating margin and related percentage movements are stated before restructuring costs and the amortisation of certain intangible assets as shown in the segmental analysis by class of business
[3] Excludes the impact of IAS 39
[4] Re-presented dividend per ordinary share post rights issue

For further information on the day, please contact:

Philip Green - Chief Executive Officer	+44 (0) 20 7307 0300
Simon Batey – Chief Financial Officer	+44 (0) 20 7307 0300
Darren Jameson - Investor Relations Manager	+44 (0) 7733 127707
Evelyn Brodie - Head of Corporate and Financial Communications	+44 (0) 20 7307 0309

A presentation to investors and analysts starts at 8.30 am on Thursday, 1 June 2006, in the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a one-way listen in conference call facility, by dialing: + 44 (0) 20 7162 0025. This recording is available for 7 days following 1 June, on +44 (0) 20 7031 4064, access code 704320.

The presentation, with further information on United Utilities, will be available at 8.30 am on the day at: http://www.unitedutilities.com and, later, on Bloomberg at: UUIR<GO>, where a multimedia version will be available. Photographs to support these results can be downloaded via http://www.vismedia.co.uk.

CHIEF EXECUTIVE OFFICER'S REVIEW

United Utilities has delivered another strong financial performance in the year to 31 March 2006 and has announced a 21% increase in profit before tax[1] to £481 million. Operating profit from continuing operations[2] increased by 12%, to £766 million. The difference in these growth rates was largely attributable to shareholder support of the second stage of the rights issue and lower interest rates on debt, which has helped to maintain a broadly flat interest charge.

The Board is proposing a final dividend in respect of the year ended 31 March 2006 of 29.58 pence per ordinary share. Together with the interim dividend of 14.29 pence per ordinary share, the ordinary dividend for the year is 43.87 pence. This is an increase of 3.4%, consistent with the group's 2005-10 policy of growing dividends in line with inflation.

Our regulated business had a successful year with segmental operating profit[2] up 16%, in part benefiting from the planned re-scheduling of the infrastructure renewals programme, which has resulted in the deferral of around £15 million of expenditure to 2006/07 and 2007/08.

Although water and wastewater customers have continued to benefit from overall improved levels of service and efficiency, there is scope for further improvement. The business intends to focus on improving its efficiency and a number of initiatives are already in place, which are progressing well. With regard to operational performance, the company achieved its economic level of leakage, at 31 March 2006, in line with its action plan agreed with Ofwat. In addition, our reservoirs are over 90% full and we expect to maintain a healthy supply-demand balance, avoiding the need for water restrictions.

United Utilities Electricity was assessed by Ofgem at the 2004 price review as below average for efficiency. There is significant scope for improvement and the business has made good progress this year, substantially reducing direct operating costs. Operationally, United Utilities Electricity has performed well, particularly as measured by Ofgem's customer interruptions and customer minutes lost assessments.

Capital investment across our regulated water, wastewater and electricity operations totalled £582 million. For the sixteenth consecutive year, capital expenditure has exceeded the profit earned as the company invests to improve quality and service for its customers.

United Utilities Contract Solutions has delivered impressive growth by using the group's core utility skills and further consolidated its position as the leading utility infrastructure outsourcing company in the

United Kingdom. The mobilisation of a number of significant new contracts during the year led to a 35% increase in revenue.

As our infrastructure management business grows, it provides the opportunity for the group to benefit from further economies of scale and exchange of best practice. A focus on strong performance, driven from the disciplines of operating within robust contractual frameworks, gives us a solid base from which to pursue other infrastructure outsourcing opportunities.

Vertex has successfully renewed a number of significant contracts and has adjusted its cost base to enhance the business' competitiveness. Vertex Financial Services has built on the Marlborough Stirling acquisition through the purchase of 1st Software Group Limited and will provide independent financial advisers with a single system covering the front and back office, enhancing its market offering and providing the opportunity to drive growth. The financial services order book has also benefited from securing our largest mortgage outsourcing deal to date, with db mortgages (a new specialist lender owned by Deutsche Bank).

Since the start of the financial year, new contracts valued at more than £40 million have been signed in the life and pensions business of Vertex Financial Services. It has a pipeline of opportunities going forward worth over £300 million, with many of the potential outsourcing contracts offering attractive margins.

Following the successful completion of the second stage of the rights issue in July last year, in the second half of the year we took advantage of the favourable market opportunities to raise long-term, index-linked debt. Since September 2005, we have agreed the issue of a total of £600 million of this debt, with maturities ranging from 30 to 43 years and real interest rates ranging from 1.3 to 2.0%. We have also agreed a drawdown of around £200 million from a ten-year loan facility provided by the European Investment Bank, in the form of index-linked debt with an effective real interest rate of 2.25%. In addition to providing a good match for our revenue profile which is linked to inflation, the relatively low cost of this funding has secured substantial additional value for our shareholders, representing outperformance of over £80 million, when compared to the regulator's cost of debt allowance, in the current five-year period.

During the year, the company's pension scheme investments achieved an average investment return of around 23% across all asset classes. Following the £320 million lump sum prepayment made in March 2005, which rolled up the 2005-10 contributions, the pension schemes are showing a net surplus of £19 million.

Early observations

In the few weeks since I joined United Utilities, I've seen the good progress already made in meeting the efficiency challenges set by our regulators. Successful delivery of the capital investment programme is vital and I'm impressed with the partnership framework approach that has been developed to help optimise our performance. I believe the current strategy of targeting customer service and operational performance improvement is the right approach, and there is plenty of scope for further progress.

The core skills from our regulated businesses apply directly within United Utilities Contract Solutions. I've had the opportunity to reflect on its market leadership position and believe that we are well placed to take advantage of outsourcing opportunities that seem likely to arise in the utility sectors. There is potential for further exchange of best practice within the group, and I would like to see further performance improvements in operating both our own and other companies' assets.

Vertex's growth record is impressive. Few businesses have profitably grown third party revenue from zero to over £300 million within six years and prospects for third party growth are good. As a mark of this success, as a proportion of sales, client revenues from United Utilities are likely to reduce further

over the next two years, from around a quarter today. Financial services and the public sector continue to offer good prospects in the medium term.

Outlook

With further real price increases ahead, our regulated businesses should continue to deliver strong profit growth. Infrastructure management has a robust order book in place, which should drive continued growth in revenue and has a solid base from which to pursue other outsourcing opportunities. Vertex has some good opportunities in the pipeline, particularly in the public sector and financial services sector. Overall, the group's progress means we have a strong platform from which to develop the business further.

OPERATING PERFORMANCE

LICENSED MULTI-UTILITY OPERATIONS

- Revenue increased by 9% to £1,503 million
- Segmental operating profit[2] increased by 16% to £652 million

Revenue increased by 9% to £1,503 million, driven by allowed price increases, including inflation, of 8.4% in our water and wastewater business and 11.5% in our electricity business.

Segmental operating profit[2] increased by 16% to £652 million for the period, despite increasing costs that are a function of the growth in the asset base. The results also reflect the re-scheduling of the infrastructure renewals programme, resulting in the deferral to 2006/07 and 2007/08 of approximately £15 million of expenditure, as the new five-year programme gets underway. Excluding this benefit, the year-on-year increase would have been around 13%.

Capital investment in the period was £582 million, of which £441 million related to water and wastewater and £141 million to electricity distribution. This is within the regulatory allowance for the year and reflects the re-phasing of expenditure from the first year of the capital programmes to future years. Capital expenditure is likely to peak in year three of the five-year programme, at around £1 billion, and then gradually phase down as the business moves towards the conclusion of the 2005-10 regulatory review period.

The capital investment partnership framework approach is now embedded into the business. A range of integrated work teams have been set up to help reduce project management costs. A new project and investment management system to support delivery of the capital programmes is now up and running and benefits have also been realised through co-location of activities, shared systems and greater collaboration through the supply chain.

Good progress has been made in delivering the operating efficiency initiatives and the business remains confident that it can achieve its regulatory efficiency targets.

- At the start of the year, the Customer Sales and Service Delivery businesses were merged to form United Utilities North West. This has rationalised operations and reduced management costs.

- A new customer billing system, to improve customer service and increase efficiency, was implemented and the entire customer base has been successfully migrated onto it.

- Increased focus on work planning, scheduling and field force productivity, with a new mobile communications system being rolled-out.

- The company has been looking to optimise the way it manages its major assets in the North West, through its Integrated Performance Management project. The successful pilot programmes have now been extended across the region.

- A number of transformation initiatives have been developed, which are primarily focused around implementing a range of business process changes to improve the way the business operates.

- Additionally, the company is continuing to increase its focus on service and performance levels and new programmes and initiatives are being introduced to link remuneration and performance for all staff.

The group has a number of initiatives in place to leverage its increasing size and achieve additional efficiencies, particularly in the area of procurement. Earlier in the year the group signed a contract with a sole supplier to provide high-pressure and medium density polyethylene pipes to United Utilities Water, in addition to servicing the water and gas outsourcing contracts in the infrastructure management business. These initiatives should help to offset other cost pressures. For example, the business expects energy costs to increase by over 30% in 2006/07.

United Utilities Water has reduced its leakage level in the year by around 50 megalitres per day, to 470 megalitres per day. In line with an action plan agreed with Ofwat, it achieved its economic level of leakage at 31 March 2006. Meeting this year-end spot leakage target places the business in a strong position to sustain performance at around this level in order to achieve Ofwat's 12-month rolling leakage target of 470 megalitres per day for 2006/07. The company will be spending around £70 million on finding and fixing leaks over the next four years, in addition to its water mains rehabilitation and replacement programmes. Reservoir levels are currently over 90%, in line with expectations for this time of year. The business expects to maintain a healthy supply-demand balance, avoiding the need for water restrictions.

United Utilities Water met or outperformed its key internal outputs targets during the year. It replaced 802 kilometres of water mains, removed a number of properties from the low pressure and flooding registers and is on track with delivery of its water treatment works quality programme. Drinking water quality has continued to improve and 2005 mean zonal quality was 99.94%.

United Utilities Electricity continued to focus on maintaining the integrity, security and safety of its electricity distribution network and outputs are in line with its five year delivery plan. During the year the business replaced or refurbished 221 kilometres of overhead lines and replaced 95 kilometres of underground cables. It also replaced or refurbished 428 switchgear units and replaced 223 transformers in the twelve month period.

At the time the water price review was concluded in December 2004, it was recognised that there was potential for additional investment relating to projects that were not part of United Utilities' 2005-10 regulatory contract, but which may be confirmed as additional obligations during this period by the regulators. These potential projects, with an estimated maximum value of £500 million, continue to be the subject of discussions with the regulators and the evaluation process is not expected to be concluded before the end of the 2006 calendar year.

Approximately £200 million of funding was provided in the 2000-05 period to deliver a number of obligations, primarily relating to the Unsatisfactory Intermittent Discharge (UID) programme, which have been carried over into AMP 4. United Utilities Water, in its negotiations with the Environment Agency and Ofwat, is seeking to finalise requirements relating to those UID outputs and expects the bulk of this capital expenditure programme to be incurred over the next two financial years.

INFRASTRUCTURE MANAGEMENT

- Revenue increased by 35% to £692 million
- Segmental operating profit[2] increased by 6% to £96 million
- Segmental operating margin[2] of 14%

United Utilities Contract Solutions applies the core utility skills of the licensed multi-utility businesses, through outsourcing contracts, and is involved in the operation or management of assets representing around 35% of the UK water industry's asset base. The business also provides gas services to over 6 million people and now serves a population of over 17 million in the UK.

The infrastructure management business has grown rapidly since its creation and increasingly benefits from economies of scale and exchange of best practice across its range of contracts. The value of the outsourced utility contracts which commenced in this year total approximately £3.3 billion. United Utilities Contract Solutions' total order book stands at around £5 billion.

United Utilities Contract Solutions has improved both the operational and financial performance of the companies with which it holds contracts. The disciplines of operating within robust contractual frameworks have helped the business to balance risk and reward and ensure that significant focus is placed on performance. This experience has improved the commercial skill sets of the business and places it in a strong position from which to pursue other infrastructure outsourcing opportunities.

After the successes in securing contract wins during 2004/05, 2005/06 has been a year of implementation for United Utilities Contract Solutions, which has resulted in a 35% rise in revenue. The business also continued its profit growth record, delivering a 6% increase in segmental operating profit[2], the slower growth reflecting the planned start-up costs associated with the substantial new contracts, and the rebasing of performance targets on contracts renewed in the year.

Utility Solutions

Utility Solutions is responsible for United Utilities' utility outsourcing contracts in the United Kingdom. This includes contracts with Southern Water, Scottish Water, Dwr Cymru Welsh Water, Northern Gas Networks and three Scottish PFI operations.

The five-year Southern Water contract, worth around £750 million to the consortium, of which United Utilities has a 40% share, commenced on 1 April 2005 when around 120 Southern Water employees transferred to United Utilities Contract Solutions. Performance to date has been good, with the value of work and outputs exceeding Southern Water's expectations.

The success of the original four-year contract with Dwr Cymru Welsh Water helped United Utilities secure a £1.5 billion, 15-year contract renewal to provide operations, maintenance and shared services, which commenced in April 2005. United Utilities Contract Solutions has assisted in significantly improving service levels and has helped to move Dwr Cymru Welsh Water from seventh position to joint first position in Ofwat's latest overall performance assessment league table.

United Utilities acquired a 15% stake in the CKI-led consortium that purchased the North of England gas distribution network from National Grid Transco early in the financial year. Subsequently, United Utilities Contract Solutions secured a £1.1 billion, 8-year contract to operate and maintain the network, and manage the capital expenditure programme, on behalf of the consortium. This contract successfully commenced on 1 June 2005, when around 1,100 employees transferred to United Utilities Contract Solutions under TUPE regulations. First year progress has been excellent. The business has outperformed its operating and capital expenditure targets and its cash targets and has met its replacement expenditure targets.

Industrial and Commercial Solutions

Industrial and Commercial Solutions is responsible for multi-utility connections and metering services to domestic, commercial and industrial developers, and the provision of specialist water and liquid waste services to industrial customers. The business also includes United Utilities Contract Solutions' facilities services and energy management services businesses.

The £225 million metering contract with British Gas Trading, which was subsequently increased to £276m, was the first major meter installation contract to be outsourced and has around three years left to run. The contract continues to progress well.

Since April 2005, the business has been working in partnership with Vertex to deliver the £427 million contract with Thurrock Council to transform a number of the authority's business processes, from administration and customer services through to procurement and highways maintenance. Industrial and Commercial Solutions is focusing on providing facilities management, highways engineering and transportation services and the contract is progressing well.

International

International applies United Utilities' expertise in infrastructure management and operations to develop and manage utility projects around the world. The business currently operates concessions in Bulgaria, Estonia, Poland, the Philippines and Australia.

United Utilities continues to retain operational responsibility for Tallinna Vesi and Manila Water, which were both successfully listed on their stock exchanges in 2005/06 and 2004/05, respectively, via initial public offerings. These transactions resulted in gains on partial disposal of £7.0 million (2004/05 £1.3 million).

BUSINESS PROCESS OUTSOURCING

- Revenue of £405 million (2005 - £396 million)
- Segmental operating profit[2] of £21 million (2005 - £24 million)

Vertex is a leading international provider of business process outsourcing services and technology solutions and is also one of the UK's major customer management service suppliers. The business has clients in the private enterprise, financial services, utility, central and local government sectors.

This has been a year of transition for Vertex. The successful contract with the Department for Work and Pensions came to a natural close and the strong performance on this contract positions Vertex well to compete for future potential contracts in the public sector, a market which continues to offer good prospects in the medium-term.

Vertex has adjusted its cost base in the 2005/06 financial year to enhance the business' competitiveness. The company has moved more of its IT and support functions offshore and has also undertaken a property rationalisation programme in the UK. The associated restructuring charges are one-off in nature.

The company has been successful in renewing a number of significant contracts. As a mark of this success, given the growth in Vertex's overall portfolio of activity, as a proportion of sales, client revenues from United Utilities are likely to reduce further over the next two years, from around a quarter today.

Significant progress has been made in relation to Vertex Financial Services. The business has built on the Marlborough Stirling acquisition through the purchase of 1st Software Group Limited in March 2006. The initial consideration was £25 million, plus a maximum of up to £13.5 million subject to certain

performance criteria being achieved over the next two years. This transaction strengthens Vertex Financial Services' leading position in the market providing software to independent financial advisers (IFAs). The combination of front and back office capabilities, offered through the integration of The Exchange and 1st Software, provides a compelling strategic fit. It will deliver a single system for seamless, straight-through-processing for independent financial advisers along with a significant reduction in administration and transaction costs. This combination enhances Vertex Financial Services' market offering and provides additional opportunity to drive growth.

The financial services order book has also grown substantially following the company's largest mortgage outsourcing contract win to date. In March 2006, a £45 million, five-year outsourcing contract was secured with db mortgages (a new specialist lender owned by Deutsche Bank) to support its entry into the UK intermediary mortgage market. Vertex will deliver application processing and mortgage servicing utilising its Omiga and Optimus software. In addition, in March 2006, Vertex purchased Egg's 49% stake in its mortgage subsidiary, extended its mortgage services agreement with Egg and secured other contracts with Livingstone Mortgages and GMAC-RFC in Canada.

In the public sector, during April 2005, Vertex successfully commenced the first phase of its £427 million, 15-year contract with Thurrock Council, to provide customer management, information technology and business process services. Progress is good, with the customer contact centre, which went live in June 2005, exceeding its service level targets. Vertex also mobilised the first phase of its strategic partnership with Hertfordshire County Council in October 2005. Around 100 employees have transferred to Vertex and the implementation of a new customer relationship management system is now underway.

The company continues to pursue the significant opportunities afforded by deregulation in the North American utilities market. Vertex entered into an alliance deal with IBM in June 2005 and the first stage of this alliance initiative was to team with IBM on its $1.6 billion contract with US multi-state utility NiSource to provide customer contact centre, sales and billing services. This contract continues to progress well.

As anticipated, margins in 2005/06 have been affected by the start-up costs associated with the Thurrock Council contract and the weak trading position of Marlborough Stirling that was recognised at the time of its acquisition. Growth prospects for Vertex remain promising in the medium-term with a number of opportunities in the pipeline, particularly in the public sector and financial services sector.

FINANCIAL PERFORMANCE

International Financial Reporting Standards (IFRS)

From 1 April 2005, United Utilities has been required to comply with International Financial Reporting Standards (IFRS). These results, and prior period comparisons, are in accordance with IFRS, with the exception of IAS 39 which, as previously announced, has been applied only from 1 April 2005. A reconciliation between IFRS and UK accounting standards is provided for the year ended 31 March 2005 in note 11 of this announcement. It should be noted that there are no cash flow or financing implications for the group as a result of IFRS compliance.

American Depositary Shares

The company will be filing with the US Securities and Exchange Commission Form F-6 notifying the change of American Depositary Receipts (ADR) depositary from the Bank of New York to JPMorgan Chase Bank, N.A. and raising the limit on issuance in its ADR Programme from 50,000,000 to 100,000,000 American Depositary Shares (ADSs) evidenced by ADRs, each ADR evidencing two ordinary shares in the company.

Revenue and operating profit from continuing operations

Revenue from continuing operations rose 13.5% to £2,386.8 million, reflecting growth across our licensed multi-utility and support services businesses.

Group operating profit[2] from continuing operations rose 12.4% to £765.5 million. This increase reflects improved operating profit[2] in licensed multi-utility operations and infrastructure management. Group operating profit from continuing operations after restructuring costs increased by 13.6% to £740.0 million.

Financing expense

Net finance expense[3] was broadly the same as last year at £285 million, principally reflecting receipt of the proceeds from the second stage of the rights issue and lower interest costs on debt, offset by additional funding requirements of the capital investment programme. As a result of this, profit before tax[1] increased by 20.9% to £480.5 million, compared to a 12.4% increase in operating profit from continuing operations[2]. As expected, the impact of IAS 39 has introduced some volatility to the income statement and across the full year this has increased the reported finance expense by £15.7 million. Since IAS 39 only applies from 1 April 2005, it should be noted that there is no impact on comparative periods.

In order to hedge the interest cost implicit in the regulatory contracts, the group fixes interest rates for the duration of each five-year review period by typically swapping fixed rate debt to floating rate at the time of issue and then swapping back to fixed rate at the outset of each five-year regulatory contract period. IAS 39 limits the use of hedge accounting for these commercial hedges, thereby increasing the potential volatility of the income statement. However, this has no cash flow impact and the effect of IAS 39 on the reported profit should substantially balance out over the 2005-10 period.

Restructuring costs and the amortisation of certain intangible assets

The amortisation of certain intangible assets (relating to acquisitions undertaken since the date of transition to IFRS 3 'Business Combinations', the value of which, prior to the adoption of IFRS, would have been reflected in goodwill) was £14.7 million, compared with £9.3 million last year. Of this total charge, £4.9 million related to Your Communications and this is included in the discontinued operation line of the income statement. The remaining £9.8 million principally results from the intangible assets arising from the acquisition of Marlborough Stirling by Vertex which was completed in May 2005.

During the year there was a total restructuring charge of £25.5 million to the income statement, mainly arising from the Marlborough Stirling integration and from further restructuring and rationalisation of property requirements in Vertex during the second half of the year.

Taxation

The group recorded a current tax charge, relating to continuing operations, of £47.7 million during the period, compared with a tax credit of £30.0 million in the previous year. The cash impact of the £47.7 million current tax charge was offset by a cash benefit of around £47 million secured through the manner in which the Your Communications disposal was structured. The deferred tax charge relating to continuing operations was £72.6 million, which primarily relates to the requirement to provide in full for deferred tax under IAS 12. This compares with a £126.1 million charge in the corresponding period last year. The total tax charge relating to continuing operations is £120.3 million.

The effective current tax rate for the year relating to continuing operations is 10.9% (27.4% including deferred tax).

Discontinued operation

As outlined in the 2005/06 interim results, Your Communications, in accordance with IFRS, was classified as a discontinuing business held for sale in the context of United Utilities' consolidated accounts. Following the sale of Your Communications to THUS Group plc, which completed on 26 February 2006, the resultant 21.7% holding in THUS will be treated as an associate company in future accounting periods. However, due to its immateriality in the context of the United Utilities group, the company's share of the financial performance of THUS Group plc has not been shown as a separate item in the financial statement for the year ended 31 March 2006.

Earnings per share

Basic earnings per share, relating to continuing operations, increased by 8.1% to 37.3 pence. Diluted adjusted earnings per share, relating to continuing operations and excluding deferred tax, the impact of IAS 39 and restructuring costs, which excludes the effects of the rights issue, increased by 2.2% to 50.3 pence.

Dividends per share

The Board is proposing a final dividend in respect of the year ended 31 March 2006 of 29.58 pence per ordinary share. Together with the interim dividend of 14.29 pence per ordinary share, the ordinary dividend for the year is 43.87 pence. This is an increase of 3.4%, consistent with the group's 2005-10 policy of growing dividends in line with inflation, subject to at least meeting its regulated cost savings targets, and continuing profitability in Vertex and Contract Solutions. The Board believes that the group is on track to achieve these objectives.

As previously communicated to the market, the 2004/05 dividend for comparative purposes has been adjusted to take account of the second stage of the rights issue. Throughout the rights issue period, dividend yield and overall cash return have been maintained for shareholders who subscribed in full to both stages of the rights issue.

This dividend will be paid on 25 August 2006 to shareholders on the register at the close of business on 30 June 2006. The ex-dividend date for the final dividend is 28 June 2006.

Cash and short term deposits and borrowings

Cash and short term deposits at 31 March 2006 were £1,513.5 million. Unutilised medium term bank facilities (maturing in more than one year) totalled £450.4 million. Combining these sources, with an undrawn £200 million loan facility agreed with the European Investment Bank, total available liquidity was £2,163.9 million. This gives United Utilities an excellent pre-funded position for its capital investment programmes in both its regulated businesses.

Borrowings, net of cash and short term deposits, at 31 March 2006 were £4,186.7 million, a decrease of £91.9 million compared with 31 March 2005. This reduction principally reflects operational cash flows and proceeds from the second stage of the rights issue exceeding capital expenditure in the regulated businesses and payment of the 2004/05 final dividend and 2005/06 interim dividend. The balance comprised £4,272.6 million of bonds, £519.6 million of loans from the European Investment Bank, £80.5 million of long term leasing, £196.9 million of joint venture borrowings and £630.6 million of other loans and overdrafts, offset by £1,513.5 million of cash and short term deposits.

Index-linked debt

In the second half of 2005/06, the group agreed the issue of a total of £550 million of long-term, index-linked debt with 30, 35, 36, 37 and 40 year maturities at real interest rates ranging from 1.3 to 2.0%.

After the year-end, the company also agreed to raise a further £50 million of index-linked borrowings with a term of 43 years and real interest rate of approximately 1.8%. The group also agreed a drawdown of around £200 million, from a ten-year loan facility provided by the European Investment Bank, in the form of index-linked borrowings with an effective interest rate of 2.25%. The principal amount of this borrowings will be adjusted upward with inflation (or downward in the event of deflation), tracking movements in the UK Retail Price Index ("RPI"). This form of liability is a good match for the group's regulated assets, which are also linked to RPI.

Pensions

Pensions schemes investments had a good year, with an average investment return of around 23% return across all asset classes. More specifically, investment returns on the £320 million lump sum prepayment made in March 2005, which rolled up the 2005-10 annual contributions, have helped to eliminate the funding gap during the course of the year.

Taking account of the lump sum prepayment, the pension schemes had a net surplus at 31 March 2006 of £19.3 million.

The final regulatory price determinations provide for ongoing pension scheme funding requirements, as assessed by the regulators at the time, and make explicit allowance for funding of the relevant elements of the pension scheme deficits. United Utilities has estimated the proportion of the gross deficit not explicitly funded through the regulatory price controls, over the five-year period, to be no more than around £25 million across both regulated businesses.

-o0o-

Consolidated income statement

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
Continuing operations		
Revenue	2,386.8	2,103.7
Other income	21.8	19.8
Employee benefit expense	(429.0)	(392.8)
Depreciation and amortisation expense	(320.3)	(330.7)
Other operating costs	(893.8)	(718.9)
Restructuring costs	(25.5)	(29.7)
Total operating expenses	(1,646.8)	(1,452.3)
Operating profit	740.0	651.4
Investment income	54.0	38.3
Finance costs:		
Fair value loss on debt and derivative instruments	(15.7)	
Other finance expense	(339.0)	(322.1)
Investment income and finance expense	(300.7)	(283.8)
Profit before taxation	439.3	367.6
Current taxation (charge)/credit (note 3)	(47.7)	30.0
Deferred taxation charge (note 3)	(72.6)	(126.1)
Taxation	(120.3)	(96.1)
Profit for the year continuing operations	319.0	271.5
Loss for the period/year from discontinued operation (note 6)	(110.8)	(9.4)
Profit for the year	208.2	262.1
Attributable to:		
Equity holders of the company	207.9	260.3
Minority interest	0.3	1.8
	208.2	262.1
Earnings per share from continuing and discontinued operations (note 4)		
- Basic	24.3p	33.3p
- Diluted	24.2p	30.1p
From continuing operations (note 4)		
- Basic	37.3p	34.5p
- Diluted	37.1p	31.2p
Adjusted basic earnings per share (note 5)	50.5p	54.5p
Adjusted diluted earnings per share (note 5)	50.3p	49.2p

Dividend per ordinary share (note 10)	43.87p	45.42p
Re-presented dividend per ordinary share - post rights issue (note 10)	43.87p	42.43p
Dividend cover (note 8)	0.9	0.9
Dividend cover (pre deferred tax) (note 9)	1.1	1.3
Interest cover (note 7)	2.7	2.4

Consolidated balance sheet

	31 March 2006 £m	31 March 2005 £m
Assets		
Property, plant and equipment	8,543.9	8,474.5
Goodwill	153.1	100.6
Other intangible assets	236.2	192.8
Investments	170.7	9.7
Trade and other receivables	22.0	23.4
Retirement benefit surplus	19.3	-
Derivative financial instruments	40.8	-
Total non-current assets	9,186.0	8,801.0
Inventories	28.2	40.9
Trade and other receivables	490.1	385.0
Investments	29.7	19.7
Cash and short term deposits	1,513.5	902.7
Derivative financial instruments	48.9	-
Total current assets	2,110.4	1,348.3
Total assets	11,296.4	10,149.3
Liabilities		
Trade and other payables	383.7	337.3
Borrowings	5,081.1	4,669.0
Retirement benefit obligations	-	84.6
Deferred taxation	1,426.6	1,337.3
Provisions	16.6	-
Derivative financial instruments	57.6	-
Total non-current liabilities	6,965.6	6,428.2
Trade and other payables	855.1	950.0
Borrowings	619.1	512.3
Current income tax liabilities	112.8	96.0
Provisions	36.5	18.4
Derivative financial instruments	76.4	-
Total current liabilities	1,699.9	1,576.7
Total liabilities	8,665.5	8,004.9
Net assets	2,630.9	2,144.4
Equity		
Share capital	875.4	716.2
Share premium account	1,407.8	1,038.7
Revaluation reserve	158.8	158.8
Treasury shares	(0.3)	(0.3)
Cumulative exchange reserve	2.2	3.7
Retained earnings	185.3	226.0
Total equity shareholders' funds	2,629.2	2,143.1
Equity minority interest	1.7	1.3
Total equity	2,630.9	2,144.4

Consolidated cash flow statement

Continuing operations	Year ended 31 March 2006 £m	31 March 2005 £m
Operating activities		
Cash generated by operations	1,004.5	732.2
Interest paid	(344.1)	(342.0)
Interest received and similar income	66.2	67.0
Taxation paid	(3.2)	(1.7)
Net cash generated from operating activities (continuing operations)	723.4	455.5
Net cash used in operating activities (discontinued operation)	(12.0)	(15.9)
	711.4	439.6
Investing activities		
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(102.4)	(48.2)
Disposal of subsidiaries	-	64.8
Purchase of investments	(85.3)	-
Purchase of property, plant and equipment	(598.2)	(862.0)
Purchase of intangible assets	(31.6)	-
Proceeds from sale of property, plant and equipment	34.1	14.2
Financial restructuring of joint ventures	13.2	(8.3)
Net cash used in investing activities (continuing operations)	(770.2)	(839.5)
Net cash used in investing activities (discontinued operation)	(9.0)	(12.6)
	(779.2)	(852.1)
Financing activities		
Proceeds from issue of ordinary shares	528.3	20.0
Proceeds from borrowings	943.8	597.4
Repayment of borrowings	(473.3)	(62.6)
Dividends paid to equity holders of the company	(344.7)	(317.5)
Net cash generated from financing activities	654.1	237.3
Effects of exchange rate changes	(8.0)	0.9
Net increase/(decrease) in cash and cash equivalents – continuing operations	599.3	(145.8)
Net decrease in cash and cash equivalents – discontinued operation	(21.0)	(28.5)
	578.3	(174.3)
Cash and cash equivalents at beginning of the year	865.6	1,039.9
Cash and cash equivalents at end of the year	1,433.9	865.6

Consolidated statement of recognised income and expense

	31 March 2006	31 March 2005 £m
Actuarial gains/(losses) on defined benefit schemes	119.2	(10.1)
Revaluation of investments	14.6	-
Fair value loss on cash flow hedges	(0.9)	-
Foreign exchange adjustments	(1.4)	3.7
Tax on items taken directly to equity	(35.6)	3.0
Net income/(expense) recognised directly in equity	95.9	(3.4)
Profit for the year	208.2	262.1
Total recognised income and expense for the year	304.1	258.7
Attributable to:		
Equity shareholders	303.8	256.9
Minority interests	0.3	1.8
	304.1	258.7

Cash generated from continuing operations

		Year ended
	31 March 2006 £m	31 March 2005 £m
Profit before taxation	439.3	367.6
Investment income and finance expense	300.7	283.8
Operating profit	740.0	651.4
Adjustments for:		
Restructuring costs within operating profit	25.5	29.7
Depreciation of property, plant and equipment	265.0	268.3
Amortisation of intangible assets	55.3	62.4
Profit on disposal of property, plant and equipment	(4.8)	(4.4)
Decrease/(increase) in inventories	8.7	(3.2)
(Increase)/decrease in trade and other receivables	(153.2)	25.2
Increase/(decrease) in provisions and payables	81.7	(268.8)
Outflow related to restructuring costs	(13.7)	(28.4)
Cash generated from continuing operations	1,004.5	732.2

Segmental analysis by class of business

Continuing operations	Year ended 31 March 2006	31 March 2005
Revenue	**£m**	**£m**
Licensed multi-utility operations	1,502.9	1,384.7
Infrastructure management	692.3	512.2
Business process outsourcing	404.7	396.4
	2,599.9	2,293.3
Intra group eliminations		
Licensed multi-utility operations	(7.3)	(6.6)
Infrastructure management	(90.1)	(80.2)
Business process outsourcing	(103.9)	(88.5)
Discontinued operation	(11.8)	(14.3)
	(213.1)	(189.6)
	2,386.8	2,103.7

Continuing operations	Before pension settlements, intangibles and restructuring £m	Pension settlements £m	Before intangibles and restructuring £m	Amortisation of certain intangible assets £m	Before restructuring £m	Restructuring £m	Total £m
Operating profit Year ended 31 March 2006							
Licensed multi-utility operations	652.3	-	652.3	-	652.3	(0.1)	652.2
Infrastructure management	95.5	-	95.5	(1.1)	94.4	(4.7)	89.7
Business process outsourcing	10.2	10.6	20.8	(8.7)	12.1	(20.7)	(8.6)
Unallocated	6.7	-	6.7	-	6.7	-	6.7
	764.7	10.6	775.3	(9.8)	765.5	(25.5)	740.0
Operating profit Year ended 31 March 2005							
Licensed multi-utility operations	564.6	-	564.6	-	564.6	(22.9)	541.7
Infrastructure management	82.2	7.8	90.0	0.6	90.6	(1.5)	89.1
Business process outsourcing	24.3	-	24.3	(3.2)	21.1	(4.9)	16.2
Unallocated	4.8	-	4.8	-	4.8	(0.4)	4.4
	675.9	7.8	683.7	(2.6)	681.1	(29.7)	651.4

‘Amortisation of certain intangible assets’ relates to amortisation charged to the income statement during the year in respect of intangible assets arising on acquisitions undertaken since the date of transition to IFRS 3 ‘Business Combinations’ (1 April 1999). Prior to the adoption of IFRS, the value of such intangible assets would have been reflected within goodwill.

Pension settlements arise in the normal course of business at the commencement of and exit from long-term contracts in the business process outsourcing and infrastructure management segments of the group.

Restructuring costs principally relate to severance and programme costs in the business process outsourcing segment and are disclosed separately as the directors consider that they are material and this provides for a more representative view of underlying segmental business performance.

NOTES

1. Basis of preparation

International Financial Reporting Standards
The consolidated financial statements of United Utilities PLC, for the year ended 31 March 2006 have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Results for the comparative periods have been restated under IFRS as adopted for use in the EU.

Practice is continuing to evolve on the application and interpretation of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by the IFRIC.

The principal IFRS accounting policies of the group can be found on the group's web site www.unitedutilities.com. The disclosures required by IFRS 1 concerning the transition from UK GAAP (United Kingdom generally accepted accounting practice) to IFRS are given in note 11.

The financial information set out in this statement relating to the year ended 31 March 2006 does not constitute statutory accounts for that period. Statutory accounts for 2006, in accordance with IFRS, will be delivered to the Registrar of Companies following the company's annual general meeting. The auditors have reported on those accounts; their report is unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The financial information set out in this statement relating to the year ended 31 March 2005 does not constitute statutory accounts for that period. Full statutory accounts of United Utilities PLC in respect of that financial period in accordance with UK GAAP, which received an unqualified audit opinion and did not contain a statement under either section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

Implementation of IAS 32 and IAS 39
The group adopted IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement as adopted for use in the EU prospectively from 1 April 2005, as permissible under IFRS 1 First time adoption of International Financial Reporting Standards. As a consequence, the group recognised an increase in borrowings of £65.8 million and a reduction in shareholders' equity of £3.5 million as at 1 April 2005, as follows:

	£m
Fair value of derivatives	(44.2)
Fair value of debt	65.8
Financial liabilities reinstated as not legally extinguished	(26.2)
Tax effect	1.1
Reduction in shareholders' equity	(3.5)

Interest rate swap agreements and financial futures are used to manage interest rate exposure, while the group enters into currency swaps to manage its exposure to fluctuations in currency rates. In accordance with IAS 39, all financial derivatives are recognised in the balance sheet at fair value.

Changes in the fair value of all derivative financial instruments are recognised in the income statement within finance expense as they arise, except for derivatives that are designated and effective in terms of cash flow hedging relationships, in which case the gains and losses are deferred in equity.

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss.

Where changes in the fair value of a derivative differ to changes in the fair value of the hedged item, attributable to the risks being hedged, the hedge ineffectiveness is recorded in the income statement within finance costs.

Where hedge accounting has not been applied, the group may elect to designate a financial liability at inception as at fair value through profit or loss provided the financial liability meets the conditions specified in IAS 39 as adopted for use in the EU.

2. Profit from continuing operations before tax, restructuring costs and the impact of IAS 39

Profit from continuing operations before tax is reconciled to profit from continuing operations before tax, restructuring costs and the impact of IAS 39 as follows:

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
Continuing operations		
Profit before tax	439.3	367.6
Restructuring costs	25.5	29.7
Fair value loss on debt and derivative instruments	15.7	-
	41.2	29.7
Profit before tax, restructuring costs and the impact of IAS 39	480.5	397.3

3. Taxation

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
Current tax:		
UK corporation tax (charge)/credit	(57.4)	0.5
Foreign tax	(3.4)	(1.7)
Prior year	13.1	31.2
	(47.7)	30.0
Deferred tax:		
Current year	(64.6)	(102.5)
Prior year	(8.0)	(23.6)
	(72.6)	(126.1)
	(120.3)	(96.1)

4. Earnings per share

Basic earnings per share and diluted earnings per share are calculated by dividing profit for the year by the following weighted average number of shares in issue:

		Basic	Diluted
(i)	Year ended 31 March 2006	853.9 million	858.4 million
(ii)	Year ended 31 March 2005 (restated)	781.0 million	865.2 million

The five for nine rights issue, structured so that the proceeds were received in two stages, was approved at the Extraordinary General Meeting (EGM) of shareholders on 26 August 2003. The first tranche of the proceeds, received during September 2003, raised £501.2 million (net of costs) from the issuing of 309,286,997 A shares. The second tranche of proceeds received in June 2005 raised £508.1 million (net of costs), reflecting the subscription of 309,286,997 further A shares. In July 2005, all A shares were then consolidated and reclassified as ordinary shares on the basis of one ordinary share for two A shares.

For the purposes of calculating the weighted average number of shares used in the earnings per share calculations, the A shares have been treated as part paid ordinary shares, two A shares being equivalent to one ordinary share, for the period prior to their consolidation as ordinary shares in July 2005.

The difference between the weighted average number of shares used in the basic and the diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 Earnings per Share.

The basic and diluted weighted average number of shares have been re-presented for all periods prior to the second stage of the rights issue to reflect the bonus element of the rights issue as required by IAS 33. The adjustment factor, based on the consideration received from the second stage of the rights issue is 1.0962, calculated using 653.5 pence per ordinary share, being the closing price on 27 June 2005, the last day on which A shares were traded with the rights.

The basic and diluted earnings per share for the year are as follows:

	Year ended 31 March 2006	**Year ended 31 March 2005**
From continuing and discontinued operations		
- Basic	24.3p	33.3p
- Diluted	24.2p	30.1p
From continuing operations		
- Basic	37.3p	34.5p
- Diluted	37.1p	31.2p

5. Adjusted basic and adjusted diluted earnings per share

Adjusted basic and adjusted diluted earnings per share have been calculated by dividing adjusted profit for the year (see below) by the weighted average number of shares in issue, and shares in issue including dilutive shares, respectively.

The adjusted profit for the year is calculated as follows:

	Year ended 31 March 2006 £m	**Year ended 31 March 2005 £m**
Profit for the year	207.9	260.3
Restructuring costs	25.5	29.7
Loss for the period/year from discontinued operation	110.8	9.4
Deferred taxation charge	72.6	126.1
Fair value loss on debt and derivative instruments (net of current tax credit)	14.7	
Adjusted profit for the year	431.5	425.5

Adjusted basic and diluted adjusted earnings per share for the year are as follows:

	Year ended 31 March 2006 £m	**Year ended 31 March 2005 £m**
Adjusted basic earnings per share	50.5p	54.5p
Adjusted diluted earnings per share	50.3p	49.2p

6. Discontinued operation

On 26 February 2006 the group sold the Your Communications business as part of the declared strategy of a progressive exit from the telecoms market. The purchaser was THUS Group plc and the consideration comprised initial consideration of 391,532,832 ordinary shares with a market value of 15.5 pence each (in aggregate £60.7 million), together with the option to acquire up to a further 4.8 per cent of shares in THUS Group plc dependent upon the future share price of THUS Group plc. This investment, in listed securities, presents the group with the opportunity for return through dividend income and trading gains.

The results of Your Communications, the discontinued operation, which have been disclosed separately in the consolidated income statement as required by IFRS 5 'Non current assets held for sale and discontinued operations, are as follows:

	Period ended 26 February 2006 £m	**Year ended 31 March 2005 £m**
Revenue	175.4	233.7
Operating expenses	(193.0)	(245.2)
Loss before taxation	(17.6)	(11.5)
Taxation on loss	8.6	2.1
Loss for the period/year from discontinued operation	(9.0)	(9.4)
Adjustment to value before taxation	(147.7)	-
Taxation on adjustment to value	31.6	-
Loss on disposal of discontinued operation	(9.1)	-
Taxation on loss on disposal of discontinued operation	23.4	-
Total loss for the period/year from discontinued operation	(110.8)	(9.4)

7. Interest cover

Interest cover is calculated as the number of times the net finance expense for the year (excluding the impact of IAS 39) is covered by operating profit from continuing operations before restructuring costs.

8. Dividend cover

Dividend cover is calculated by dividing profit for the year from continuing operations before restructuring costs and the post-tax impact of IAS 39 by the dividends relating to the year.

9. Dividend cover (pre deferred tax)

Dividend cover (pre deferred tax) is calculated by dividing profit for the year from continuing operations before restructuring costs, the post-tax impact of IAS 39 and deferred tax by the dividends relating to the year.

10. Dividends

	Year ended 31 March 2006 £m	**Year ended 31 March 2005 £m**
Dividends relating to the year comprise:		
Interim dividend	124.8	105.3
Final dividend	259.0	219.4
	383.8	324.7

Prior year dividends per ordinary share have been re-presented for comparative purposes to take account of the bonus element of the second stage of the rights issue. The factor applied to the prior year dividends is 0.9342, which when combined to the factor applied for the first stage of the rights issue of 0.9072 gives an overall factor of 0.8475. This overall factor is calculated using 576.0 pence per ordinary share, being the closing price on 25 July 2003, the last business day prior to the announcement of the rights issue.

The final dividend of 29.58 pence per ordinary share will be paid on 25 August 2006 to shareholders on the register at the close of business on 30 June 2006. The ex-dividend date for the final dividend is 28 June 2006.

11. Reconciliations between IFRS and UK GAAP

From 1 January 2005, all European Union listed companies are required to prepare consolidated financial statements under International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Accordingly, the results for the year ended 31 March 2006 have been prepared in accordance with IFRS accounting policies. The group's previously reported results for the year ended 31 March 2005 have been restated, the date of transition to IFRS being 1 April 2004.

In accordance with International Financial Reporting Standard 1 'First-Time Adoption of International Financial Reporting Standards' (IFRS 1), the group's accounting policies under IFRS have been applied retrospectively at the date of transition, with the exception of a number of permitted exemptions. These are summarised below:

- The application of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 April 2005;
- The establishment of a deemed cost for the opening balance sheet carrying value of the water and wastewater infrastructure non-current assets by reference to fair value at 1 April 2004;
- The selection of 1 April 1999 as the date of adoption of IFRS 3 'Business Combinations' and, as a consequence, IAS 38 'Intangible Assets' and IAS 36 'Impairment of Assets';
- The application of IFRS 2 'Share Based Payments' to those share options granted after 7 November 2002 but which had not vested by 1 April 2004;
- The setting to zero of all cumulative translation differences at 1 April 2004; and
- The recognition, in full, of all actuarial gains and losses relating to pension schemes at 1 April 2004 and, prospectively, through the statement of recognised income and expense.

A summary of the adjustments that affected profit after tax and shareholders' equity in the comparative period is presented below:

	Year ended 31 March 2005 £m
Profit after tax under UK GAAP	334.9
Adjustments:	
Infrastructure accounting	(27.0)
Defined benefit pension schemes	4.5
Deferred tax discounting	(65.6)
Business combinations	5.4
Other	2.8
Tax impact of adjustments	7.1
Profit for the period under IFRS	262.1

	Year ended 31 March 2005 £m
Shareholders' equity under UK GAAP	3,117.4
Adjustments:	
Infrastructure accounting (net of tax)	145.2
Defined benefit pension schemes (net of tax)	(331.6)
Deferred tax discounting	(952.0)
Business combinations (net of tax)	2.9
Dividends	219.4
Other	(58.2)
Shareholders' equity under IFRS	2,143.1

A summary of the adjustments that affected profit for the year ended 31 March 2005 and shareholders' equity as at 31 March 2005 was presented in the group's 'International Financial Reporting Standards Adoption' announcement dated 19 July 2005 which is available on the group's website, www.unitedutilities.com.

The major areas of impact of IFRS are summarised below:

Infrastructure accounting

'IAS 16 Property, plant and equipment'

The significant impact of IAS 16 relates to the accounting for water and wastewater infrastructure assets within the group's licensed multi-utility operations. Under UK GAAP, these assets were accounted for in accordance with renewals accounting by which the water and wastewater infrastructure networks are assumed to be single assets and the depreciation charged is the estimated level of annual expenditure required to maintain the operating capability of the networks. Actual expenditure is then capitalised as incurred.

Under IAS 16 this treatment is not permitted. Therefore, the significant parts within the infrastructure networks have been identified and, for each, a useful life and residual value determined so that each segment may be depreciated individually. Furthermore, the classification between operating expenditure and capital expenditure for amounts incurred in maintaining the networks has been reassessed.

In addition, a deemed cost has been established for the opening balance sheet carrying value of the infrastructure networks by reference to fair value at 1 April 2004.

The segments recognised within the water and wastewater networks have been based upon asset class (for example sewers, water mains and tunnels) since no single pipe or section of sewer is significant compared to the total value of the networks. This has led to the identification of 14 segments which have been assigned zero residual values at the end of their useful lives. The lives allocated to these segments range from 15 – 300 years. This treatment results in an additional depreciation charge of £27.0 million in the 2005 IFRS reported results when compared with UK GAAP. Since the UK GAAP classification of expenditure between operating expenses and costs to be capitalised remains the most
appropriate treatment under IAS 16, this additional depreciation directly impacts profit before tax.

The election to record the carrying value of the water and wastewater infrastructure networks at fair value, and to use that fair value as the deemed cost in the opening IFRS balance sheet, increases net assets by £145.2 million (net of deferred tax) as at 31 March 2005 compared with UK GAAP.

There is no impact of IFRS on the amounts reported under UK GAAP for electricity infrastructure assets.

Interests in joint ventures

'IAS 31 Interests in Joint ventures'

For the purposes of UK GAAP, FRS 9 'Associates and Joint Ventures' requires joint ventures to be accounted for in consolidated financial statements using the gross equity method. IAS 31 does not permit gross equity accounting and instead presents the options of equity accounting or proportionate consolidation.

The group has elected to apply proportionate consolidation on adoption of IAS 31.

The application of proportionate consolidation results in the group including its share of each joint venture income statement and balance sheet account caption on a line by line basis within the consolidated financial statements. Proportionate consolidation does not affect operating profit, profit before tax or net assets. However, proportionate consolidation does have a material impact on certain individual balance sheet captions: most noticeably at 31 March 2005 an increase of £206.0 million in property, plant and equipment and increased borrowings of £178.9 million, which is typically non-recourse to the group.

Defined benefit pension scheme
'IAS 19 Employee benefits'
The group prepared its 2005 UK GAAP results in accordance with SSAP 24 'Accounting for Pension Costs', with FRS 17 'Retirement Benefits' transitional disclosures provided in the notes to the accounts. FRS 17 became fully effective for accounting periods beginning on or after 1 January 2005. The group has not adopted FRS 17 and has moved directly to IAS 19.

Under SSAP 24, any pension scheme surplus or deficit identified at the most recent actuarial valuation is recognised gradually through the profit and loss account over the average expected future working lifetime of current employees. The net pension cost under SSAP 24 therefore includes both the cost of providing an additional year of pension benefits to employees (regular cost) and an element of the surplus / deficit relating to previous years (variation). The difference between employer's contributions paid and the SSAP 24 net pension cost is recognised as a prepayment/accrual, resulting in a balance sheet position that does not necessarily reflect the actuarial position. Interest is calculated on this balance sheet entry and is also included within the net pension cost. In accordance with IAS 19, any legal and constructive obligation for post employment benefit plans must be immediately recognised as an asset or liability on the balance sheet. Where actual experience differs from the assumptions made at the start of a financial year, actuarial gains and losses will be recognised through the statement of recognised income and expense.

The adoption of IAS 19 increases the 2005 profit before tax by £4.5 million compared with UK GAAP, representing increased operating profits of £4.5 million.

The derecognition of the UK GAAP SSAP 24 prepayment reduces net assets by £272.4 million (net of deferred tax). The SSAP 24 prepayment reflected the lump sum payment of £320.0 million (pre-tax) made at 31 March 2005. Net assets are then further reduced by the recognition of the IAS 19 deficit of £59.2 million (net of deferred tax).

Business combinations
'IFRS 3 Business combinations'/'IAS 38 Intangible assets'
Under IFRS, the recognition test for intangible fixed assets acquired in business combinations is less restrictive than that of UK GAAP, and therefore more intangible assets will be separately identified from goodwill. FRS 10 'Goodwill and Intangible Assets' requires an intangible asset to be controlled by the entity through custody or legal rights and to be capable of disposal separately from the business. By contrast IAS 38 does not require an intangible to be separable from the entity if its ownership can be demonstrated through contractual or legal rights.

Goodwill is not amortised under IFRS, but rather subject to annual impairment reviews.

Intangible assets (other than goodwill) are stated at cost less accumulated amortisation and are amortised over their useful lives on a straight line basis.

IFRS 3 has a minimal impact on the net assets of the group, with the reduction in goodwill broadly offset by the recognition of newly identified intangible assets from business combinations (mainly relating to customer lists and contracts). However, IAS 12 'Income Taxes' requires a deferred tax liability to be created for any transfers from goodwill to intangible fixed assets. This deferred tax liability results in an increase in the goodwill arising on the business combination of £13.8 million as at 31 March 2005.

Since goodwill is no longer being amortised, the 2005 amortisation charge reduces by £7.5 million. Profit on sale or termination of operations for 2005 is reduced by £2.1 million due to the reversal of goodwill amortisation relating to businesses disposed of in 2004/05.

Deferred tax
'IAS 12 Income taxes'
The major impact of IAS 12 relates to discounting of deferred tax not being permitted. FRS 19 'Deferred Tax' permits, but does not require, a deferred tax asset or liability to be discounted and as a result the group has been able to apply a policy of discounting its deferred tax liability.

However, IAS 12 does not permit discounting in any circumstances. This is of particular significance to a utility business where any reversal of timing differences is likely to be deferred long into the future due to the long asset lives of network assets. The inability to discount results in an increase in the balance sheet deferred tax liability of £952.0 million at 31 March 2005 and consequently a reduction in net assets.

The deferred tax impacts arising from any other IFRS adjustments are included in the relevant sections.

Dividends
'IAS 10 Events after the balance sheet date'
IAS 10 and SSAP 17 'Accounting for Post Balance Sheet Events' both distinguish 'adjusting events' from 'non-adjusting events' with similar definitions and applications. However, under IAS 10 dividends may not be recognised until they have been appropriately authorised and are no longer at the discretion of the entity. Therefore, if this occurs after the balance sheet date, the dividends are not recognised as a liability at the balance sheet date. However, they are disclosed in the notes to the accounts in accordance with IAS 1 'Presentation of Financial Statements'.

Dividends are no longer recognised within the income statement and are recorded directly within reserves. The final dividend of £219.4 million included with the UK GAAP financial statements for 2004/05 have been reversed at 31 March 2005, thereby increasing net assets.

Accounting for derivatives
'IAS 39 Financial instruments: Recognition and measurement'
The group is taking the exemption offered by IFRS 1 to apply IAS 39 with effect from 1 April 2005 rather than 1 April 2004 (the date of transition). The comparative information for 2004/05 within the 31 March 2006 IFRS financial statements therefore reflects derivatives accounted for under UK GAAP.

Under UK GAAP, debt is carried at its hedged amount and the fair values of derivatives are not recognised in the balance sheet. Under IAS 39, the default treatment is for debt to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value with movements in those fair values reflected through the income statement. This has the potential to introduce considerable volatility to both the income statement and balance sheet. Therefore, for fair value hedges, IAS 39 allows changes in the recognised value of hedged debt that are attributable to the hedged risk to be adjusted through the income statement. In the case of cashflow hedges, movements in the fair value of derivatives are deferred within reserves until they can be recycled through the income statement to offset the future income statement effect of changes in the hedged risk. In order to apply this treatment, it must be demonstrated that the derivative has been and will continue to be an effective hedge of the hedged risk within the debt item. Changes in the fair value of all derivatives are recognised in the income statement, except for derivatives that are designated and effective in terms of cash flow hedging relationships, in which case the gains and losses are deferred in equity.

As a result of applying IAS 39, liabilities in respect of derivatives and borrowings totalling £70.4 million are recognised at 1 April 2005. This is offset by a reduction in gross debt to account for the hedged risk of £65.8 million, resulting in a reduction to net assets of £4.6 million (pre tax) compared with UK GAAP.