

Registered Number: 2366682

YORKSHIRE WATER SERVICES LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended
31 March 2009

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

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Business Review

CHAIRMAN'S REVIEW

I am pleased to report continuing progress in Yorkshire Water's financial, operational and customer service performance, in the face of challenges posed by the current economic downturn.

Across a range of customer service measures, Yorkshire Water performed well, with high levels of customer satisfaction, the lowest number of complaints in the industry and our best ever water quality.

Operational and service improvement has been achieved despite some challenging economic conditions. Increasing costs of energy and chemicals put pressure on our operating cost budgets, whilst a downturn in demand for water reduced our income.

In comparative terms, Yorkshire Water continues to perform well and was recognised as Ofwat's (the Water Services Regulation Authority) benchmark company and the most efficient water company in the UK. We also delivered a £362m capital programme over the last year and we remain well placed to out-perform the expectations of our regulator by beating our operating cost and capital expenditure targets for 2005 to 2010.

In April 2009 we submitted our Final Business Plan for 2010 to 2015 to Ofwat. Yorkshire Water's philosophy is to attempt to strike the right balance between our customers' willingness and ability to pay; the level of new environmental investment required; the need to maintain our infrastructure and service levels into the longer term; and the need to ensure we maintain a reasonable level of return for our shareholders.

If our plans are approved, a further £1.9bn will be invested in the Yorkshire region from 2010 to 2015, with our customers still paying some of the lowest charges in the UK. We are pleased that our customers demonstrated strong support for our investment plans during the year. 97% of Yorkshire Water customers surveyed said that our new five year plan and proposed bill impact was acceptable in research conducted by an independent stakeholder survey. Our investment programme will also be a welcome boost to jobs and the local economy in Yorkshire, with over 1,000 local suppliers depending on our work.

During the year we began the proposed whole business securitisation of Yorkshire Water and its subsidiary companies, which will provide a permanent and stable platform from which the long term financing of our activities can be secured. The process has taken longer than originally anticipated, largely as a result of the changes and challenges seen in the financial markets in the second half of the year, but we now expect the closing date to be during the first half of 2009/10. Following closing, creditors will benefit from the protections of a covenanted and ring-fenced structure.

Financing activities during the year included borrowing £366m on a term loan facility, which expires in November 2010. In addition, existing committed bank facilities totalling £400m and expiring in late 2009 were cancelled and replaced with new syndicated committed facilities totalling £510m expiring in November 2012. At 31 March 2009, £80m of these facilities were drawn. The company has sufficient funding to meet its anticipated requirements through to November 2010.

We expect that the economic environment will continue to be challenging but we are confident that Yorkshire Water is well placed to weather the economic downturn. Our focus will continue to be improving operational performance and customer service. We will also focus on the effective completion of the 2005 to 2010 capital programme and our plans for the financing and delivery of the 2010 to 2015 capital programme.

Business Review

In the midst of tough economic conditions, we have not neglected our corporate and social responsibility and we strive to make a positive difference in Yorkshire by improving the environment and engaging with our stakeholders and communities.

Our highly skilled and committed people, together with our partners, remain one of our strongest assets as a company and they are the key to delivering future innovation and efficiencies. We believe that fresh thinking and innovation are required in the water industry and have developed a track record of progress in this area.

Finally, I also would like to use this opportunity to thank all of those customers and stakeholders who have worked with us to help shape our investment plans. Together with our regulators, they will be crucial to the future success and sustainability of our business and that dialogue is set to continue.

Kevin Whiteman
Chairman, Yorkshire Water

Business Review

OUR BUSINESS

Yorkshire Water Services Ltd (Yorkshire Water) is the principal UK subsidiary of Kelda Group Ltd (Kelda), providing water and waste water services to more than 4.8m people and 130,000 businesses.

Every day the company supplies more than 1.3bn litres of water to homes and businesses in Yorkshire. Through the efficient operation of its extensive waste water network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment.

BUSINESS STRATEGY

Our strategy is to be clearly the best water company in the UK and to focus on striking the right balance between service, compliance, value, people, partners and society.

Value

We are committed to creating enduring value by a focus on efficiency in everything we do. Our goal is to deliver consistently good financial results by outperforming regulatory and other financial targets and delivering efficiencies across the company. We will achieve this by sharing best practice and employing world-class technology.

Our customers

Our aim is to provide a quality of service which is significantly better than any other utility company and at a price which represents value for money. To achieve this we will design our service from the outside-in, by considering the customer's point of view and eliminating service failures. This will lead to improved financial and operational performance and an enjoyable customer experience.

Our people

Yorkshire Water employs almost 2,200 people. Our aim is to create a great place to work, with zero accidents, a good work-life balance and the opportunity to make a real difference. We want to attract and retain the best people, with performance and contribution recognised and rewarded and success celebrated as part of our culture.

Environmental leadership

Yorkshire Water deals with environmental issues as diverse as land management, sustainable water management and river and bathing water standards. Our performance affects all customers and everyone who lives in the regions we serve. Our aim is to achieve 100% compliance with legal and regulatory obligations and to go beyond compliance where the benefits exceed the cost.

Society

Our aim is to make a difference to society, opening up land for public enjoyment and promoting the value of water, health and nutrition in schools. Over 30% of colleagues are involved in community volunteering, external leadership roles and in influencing matters relating to water.

Business Review

Service partners

Yorkshire Water has created a new level of partnership, understanding and transparency with its key service providers. Our aim is to achieve a win-win-win, which means better customer service, lower costs and healthy profits for all. To make this happen, we set clear expectations and encourage new ideas and innovation.

OPERATIONAL PERFORMANCE

We continue with our drive to deliver industry-leading standards of operational and customer service to the people of Yorkshire. However, the global economic climate has posed some challenges for Yorkshire Water during 2008/09. Due to the energy, hard work and enthusiasm of colleagues across the business, we have continued to make progress towards achieving our vision to be 'clearly the best water company in the UK'.

As we enter the final year of the current Asset Management Plan (AMP) period, our planning and preparation for the next five years is already well advanced.

Our Final Business Plan for the period 2010 to 2015, which we submitted to Ofwat in April 2009, has the support of our customers and stakeholders, with the Consumer Council for Water describing it as "balanced".

A joint stakeholder survey titled, 'PR09 Quantitative Research into Customers' priorities' was completed in October 2008 and published in February 2009. This survey was conducted on behalf of; Ofwat, Defra, Welsh Assembly, CCWater, EA, DWI, Natural England and Water UK and showed that 97% of domestic customers interviewed in Yorkshire supported our Draft Business Plan as being 'acceptable' or 'very acceptable'. Our Final Business Plan closely resembles our Draft submission and will see £1.9bn invested in the Yorkshire region over the next five years, with our customers still paying some of the lowest charges in the UK for their water and sewerage services (subject to receipt of the final determination from Ofwat).

Key performance indicators

	Target	Current year	Previous year
Overall customer satisfaction	95%	88%	86%
Overall drinking water quality	99.975%	99.975%	99.967%
Waste water treatment works compliance	100%	100.00%	99.51%
Accidents -			
- major and over 3 day accidents	15	26	28
- all accidents	75	152	150

Explanation of measures provided in Appendix to Business Review on page 11 and 12

Value

The company's financial performance is described in detail on page 7.

Our aim is to be clearly Ofwat's frontier company for financial performance and to outperform our targets. The past 12 months' energy and chemical prices have presented some challenges which have impacted on our financial performance.

Business Review

However Yorkshire Water was Ofwat's benchmark company for operating cost efficiency in the comparative efficiency rankings for 2007/08 and was again the most efficient Water and Sewerage Company. Despite the recent increases in energy and chemical costs, we still plan to outperform Ofwat's Final Determination on operating costs over the five-year period.

During 2008/09 we have delivered a capital programme of £362m and we are on track to deliver 7.5% out-performance over the 5 year period.

We experienced a reduction in planned income during 2008/09 due to reduced demand from our business and domestic customers following the deterioration in the economic climate. We also saw a slight increase in debt from unmeasured domestic customers unable to pay.

Customer service

Our aspiration is to provide a quality of service which is significantly better than any other UK utility company and a customer experience that is second to none.

Our contact centre provider Loop achieved its highest ever score of 4.68 (out of 5) in Ofwat's measure of customer service.

The Consumer Council for Water issued a report in September 2008 which showed that Yorkshire Water continued to have the lowest number of complaints in 2007/08, with just 23 complaints per 10,000 customers.

Environmental performance and compliance

We had our best year ever for water quality compliance, with the total number of failures falling from 118 in 2007/08 to 57 for 2008/09. Following a major programme of service reservoir inspections and maintenance, we also ensured that there were no E-coli failures at our service reservoirs.

We had a good year in terms of leakage reduction, with the amount of water lost from our own and our customers' pipes out turning at 295Ml/d and we out-performed our regulatory target of 297.1Ml/d.

We achieved 100% compliance with discharges from our waste water treatment works and a further reduction in the overall number of pollution incidents associated with our assets. This was as a result of our continued investment in improvements to our assets and operating procedures. However, an increase in the number of the more serious, Category 1 and 2 pollution incidents demonstrates the need for us to continue to focus on this area. Our target is always to achieve zero pollution incidents.

During 2008/09 we also achieved one of our major performance milestones for the AMP4 period, with Ofwat's serviceability assessment for waste water treatment works being upgraded from "deteriorating" to "stable" for the first time since 2002. This followed the implementation of a comprehensive action plan to improve compliance and the introduction of new, more robust processes for managing and maintaining our assets.

Social impact

During 2008/09 we achieved our aspiration to become a national role model for volunteering.

Business Review

Our 'One Million Green Fingers' initiative made a successful start with 100 healthy and sustainable school gardens created in local schools. More than 1,000 Yorkshire Water employees took part in the company's flagship volunteering programme which will eventually see new outdoor learning areas created at more than 350 primary schools in Yorkshire. The initiative has now been short listed as a National Example of Excellence by Business in the Community.

Yorkshire Water is now the region's leading exponent of employee volunteering, with one in three employees regularly taking part in some form of community activity. As a result of our recent success, we have now been invited to be part of a national Government Task Force to promote employee-supported volunteering across the UK.

Employees

We aspire to be recognised as a great place to work, attracting and retaining the best people and encouraging them to become ambassadors for the company.

In particular, great emphasis was placed on managing the resource implications arising from the forthcoming completion of the AMP4 capital programme and the need to prepare for AMP5, particularly as we propose to make changes to the way we manage our service and capital contracts.

We continued our focus on leadership development, with a further 100 colleagues taking part in our Leading People+ programme.

Employees' welfare continues to be a top priority for the business, with 26 incidents reported to the Health and Safety Executive in 2008/09, compared to 28 the previous year.

Partners

Our aspiration is to forge strong relationships with our partners to ensure better service, lower costs and healthy profits for all.

By March 2009 the Section 19 mains rehabilitation programme in Yorkshire was substantially complete, leaving only exception reports to be completed in 2009/10. Over the past 4 years of AMP4 our partners have helped us to improve more than 1,847km of mains leading to significant improvements in the quality and reliability of water services in the region.

During 2008/09 we also commissioned the University of Leeds to conduct research into our work with partners and the broader economic impact of our ongoing investment in water and sewerage services in the Yorkshire region. The study concluded that Yorkshire Water's investment in the region makes a major contribution to the local economy. Every year we spend approximately £650m with our suppliers, partners and staff, which in turn generates more than £1bn of additional economic activity.

More than 1,000 Yorkshire-based suppliers and some 2,200 employees benefit directly from our investment, which creates some £67m of disposable income in the region each year.

Business Review

FINANCIAL PERFORMANCE

Key financial performance indicators

	2009	2008
Operating profit (£m)	343.1	342.2
EBITDA (£m)	530.3	522.5
Interest cover	4.5x	2.5x
Net debt to Regulatory Capital Value (RCV)	65.7%	60.4%

Explanation of measures provided in Appendix to Business Review on page 11

Financial performance

Turnover increased by 5.4% to £838.4m (2008: £795.5m), compared with an average tariff increase of 8.2%, following the decline in demand for water from measured domestic and business customers during the current economic downturn. Operating profit (before exceptional items) increased by 1.5% to £354.3m (2008: £349.2m). Of the £838.4m, £399.4m relates to water services, £428.8m relates to sewerage services and £10.2m is from non appointed business.

Total regulated operating costs (which excludes exceptional operating costs, depreciation, other operating income and non-regulated costs) increased by 8.3% to £293.0m. The price of certain commodities such as energy and chemicals increased significantly above the level of general inflation and the economic climate has also impacted on bad debts. Increases have been mitigated due to the achievement of continuing efficiencies and reductions in usage.

Net interest payable reduced by £67.9m, from £144.6m to £76.7m, mainly due to net interest received of £60.4m on index linked swaps which were transferred to Yorkshire Water as part of the restructuring of debt following the acquisition of Kelda by Saltaire Water Ltd in February 2008. The swaps receive interest based on 6 month LIBOR rates and pay interest based on an index linked coupon.

The tax charge on profit on ordinary activities increased by £72.1m to £114.3m (2008: £42.2m), reflecting higher taxable profits, but was largely as a result of two different one-off deferred tax credits which reduced the 2008 tax charge. Of these, £20.4m related to the abolition of industrial buildings allowances and £38.8m related to the change in corporation tax rate from 30% to 28%.

Regulated capital investment for the year was £362.3m (2008: £377.8m). This is below the level assumed in Ofwat's final determination of prices due to the delivery of efficiencies. This excludes expenditure on non-regulated activities of £0.1m (2008: £0.1m).

Capital structure

During the year we began the proposed whole business securitisation of Yorkshire Water and its subsidiary companies, which will provide a permanent and stable platform from which the long term financing of our activities can be secured. The process has taken longer than originally anticipated, largely as a result of the changes and challenges seen in the financial markets in the second half of the year, but we now expect the closing date to be during the first half of 2009/10.

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Following closing of the securitisation, creditors will benefit from the protections of a covenanted structure, with Yorkshire Water being part of a newly created and ring-fenced "YW Financing Group", along with a holding company and finance raising subsidiaries. The YW Financing Group will carry out all its activities at arm's length to all other entities, including those owned by the ultimate parent company.

In August 2008, debt was restructured, including borrowing £366m on a term loan facility, which expires in November 2010. In addition, existing committed bank facilities totalling £400m and expiring in late 2009 were cancelled and replaced with new syndicated committed facilities totalling £510m expiring in November 2012. At 31 March 2009, £80m of these facilities were drawn. The company has sufficient funding to meet its anticipated requirements through to November 2010.

The debt restructuring has resulted in an increase in the net debt to RCV ratio at 31 March 2009 to 65.7% from 60.4%. This was calculated using an RCV at 31 March 2009 of £4,320.6m and total net debt of £2,839.4m.

During the year index linked swaps originally held by Saltaire Water Ltd as part of its acquisition of YW's parent company were novated to Yorkshire Water. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value. At the date of the novation the fair value of the swaps was £308.9m "out of the money" and this resulted in an inter-company debtor (due from Saltaire Water Limited) of this amount and a corresponding provision of this amount held in the balance sheet of Yorkshire Water. This provision is being amortised over the life of the swaps (38 years). (Refer to notes 5, 12, 15 within the financial statements).

Dividend payments during the year of £311.6m included a special dividend of £180.1m, paid in August 2008 in relation to drawdown of debt by Yorkshire Water which had been incurred by Saltaire Water Ltd at the time of acquisition of Yorkshire Water's parent company. Interim dividends of £131.5m were also paid (2008: interim dividend of £29.2m and final dividend of £82.9m in respect of 2006/07). No final dividend is proposed in respect of 2008/09.

Accounting policies

The company accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts.

Treasury policy

The company's treasury operations are controlled centrally for the group in accordance with approved board policies, guidelines and procedures. Treasury strategy is designed to manage exposure to fluctuations in interest rates, preclude speculation and to source and structure the group's borrowing requirements.

The group uses a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance its operations. Any funding required is raised by the group treasury department in the name of the appropriate company and supported by guarantees as necessary. Funds raised by the holding company may be lent to the company at commercial rates of interest. Cash surplus to operating requirements is invested in short term instruments with institutions having a long term rating of at least A- or A3 and a short term rating of at least A1 or P1 issued by Standard and Poor's and Moody's respectively.

Business Review

LOOKING FORWARD

PR09 Price Review

Ofwat makes its final determination on investment plans and prices for the period 2010 to 2015 in November 2009. The price review is critical to our business in allowing Yorkshire Water to maintain and improve service levels and performance into the future in line with our Strategic Direction Statement.

We expect that the economic environment will continue to be challenging but we are confident that Yorkshire Water is well placed to weather the economic downturn. Our focus will continue to be improving operational performance and customer service. We will also focus on the effective completion of the AMP4 capital programme and our plans for the financing and delivery of the AMP5 capital programme.

PRINCIPAL RISKS AND UNCERTAINTIES

None of the risks discussed below are considered likely to have a significant impact on the short or long term value of the company in the immediate future.

We classify principal risks in five categories:

- Changes to the regulatory environment
- Changes in legislation
- Climatic changes
- Social influences
- Supplier markets

Changes to the regulatory environment

Price Review 2009 (PR09)

In April 2009, Yorkshire Water submitted to Ofwat its Final Business Plan for the period 2010 to 2015.

The regulator is expected to publish a draft determination in July 2009, following which it will consider final representations from the water companies. It will then publish its final determination in November 2009, with the new price limits taking effect from 1 April 2010.

Changes in legislation

Flood and Water Management Bill

The draft Flood and Water Management Bill is an important piece of potential legislation which will help to clarify the roles and responsibilities of key agencies in adapting to and mitigating flood risk. It seems likely that climate change will result in more extreme rainfall events which will pose new challenges to our urban infrastructure. Yorkshire Water is committed to playing its full part in the consultation process.

Cave Review of Competition

A step-by-step approach to competition was advocated in the recent Cave Review, but it is likely that a move towards further competition for business customers will be introduced

Business Review

over the next few years. Cave also called for further innovation in the sector, which is supported by Yorkshire Water.

Humber Estuary Designation

The pending European Court decision on the designation of the Humber Estuary as a sensitive water under the Urban Waste Water Treatment Directive could drive further environmental investment in Yorkshire over the next five to ten years.

Private to Public Sewer Transfer

The transfer of private sewers to company ownership in 2011 will result in additional investment and a potential increase in water charges. The move will help to clarify the position of ownership which often exists around these assets and should help to prevent sewer flooding.

Climatic changes

The group's core activities, the provision of high quality water and sewerage services, are inextricably linked with the weather and therefore any climate changes have the potential to impact on business.

Social influences

The company is subject to social influences and may be required to change its business practices in light of regulatory changes brought about by stakeholder and consumer pressure.

Supplier markets

The company is also subject to external market forces, where input prices can sometimes rise beyond the regulatory allowance, for example the recent fluctuation in energy prices and the cost of chemicals.

Business Review - Appendix

KPI Glossary of Terms

FINANCIAL KEY PERFORMANCE INDICATORS

Operating profit

Operating profit is published in the Yorkshire Water profit and loss account.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is derived from the published Yorkshire Water profit and loss account, representing operating profit before the deduction of depreciation and amortisation costs.

Interest cover

This measure provides an indication of whether the company's profit is sufficient to cover its interest obligations and is calculated as operating profit divided by net interest payable. These figures are disclosed in the profit and loss account.

Net debt to Regulatory Capital Value (RCV)

The RCV is determined by Ofwat and is the value of the capital base on which a return is allowed for price setting purposes. The values are calculated and published annually by Ofwat. This ratio expresses Yorkshire Water's regulated net debt as a proportion of the RCV, both of which are published in Yorkshire Water's audited regulatory accounts.

NON FINANCIAL KEY PERFORMANCE INDICATORS

Overall customer satisfaction

The company recognises the value of listening to customers in order to deliver improvements that not only meet but surpass expectations. Customer satisfaction is monitored on a regular basis using a combination of random telephone surveys and event-based questionnaires.

Yorkshire Water's tracker research is an ongoing telephone survey involving 900 customers chosen at random each quarter. This monitors customers' general perceptions and the experience that customers receive when they come into contact with the company.

The survey covers a range of issues including satisfaction with the service received and whether the customer agrees that Yorkshire Water is trustworthy; listens to its customers; considers the customers' point of view; deals with complaints quickly and satisfactorily; is enjoyable to deal with; is sensitive to customers' needs; and plays key roles in protecting the environment and helping people with the community.

Yorkshire Water also has a separate telephone survey each month to a sample of customers who have telephoned our contact centre. This survey is based upon Ofwat's regulatory customer survey.

Ongoing event-based surveys cover 12 specific areas of customer contacts, namely clean water and waste water repair and maintenance work, customer visits by water and waste water field technicians, meter installations, supply pipe repairs, new supply applications, mains rehabilitation works, waste water capital works and calls to our contact centre about billing and operational matters.

Business Review - Appendix

KPI Glossary of Terms

Water quality

The Drinking Water Inspectorate (DWI) regulates public water supplies in England and Wales. It is responsible for assessing the quality of drinking water, taking enforcement action if standards are not being met and appropriate action when water is unfit for human consumption.

The Government has set legal standards for drinking water in the Water Quality Regulations. Most of these standards come directly from European law and are based on World Health Organisation guidelines. The UK has additional standards to safeguard the already high quality of water in England and Wales. The standards are strict and generally include wide safety margins. They cover:

- Bacteria
- Chemicals such as nitrate and pesticides
- Metals such as lead
- Appearance and taste

The measure we use is for overall drinking water quality which consists of the average mean zonal compliance for 40 different parameters.

Waste water treatment works compliance

The Environment Agency issues consents to allow the discharge of treated water from waste water treatment works. The three principal consented limits are for suspended solids, biochemical oxygen demand and ammonia. A range of other substances may be limited depending on the type of discharge. This indicator shows loads for the following determinands:

- suspended solids, which can blanket the river bed, thereby destroying fish habitat;
- biochemical oxygen demand (BOD), which is a measure of the amount of oxygen consumed in water - usually by organic pollution - and therefore reflects the quality of the water;
- ammonia, which is toxic to fish;
- phosphate, which can lead to eutrophication in fresh waters.

All waste water treatment works are monitored for compliance with their discharge consents and the receiving waters are monitored to assess their compliance with water quality targets. The frequency of monitoring depends on the size of the treatment works; small works are monitored on a quarterly basis and large works are monitored every week.

Reportable and notifiable accidents

The Health and Safety Commission is responsible for health and safety regulation in Great Britain. The Health and Safety Executive and local government are the enforcing authorities who work in support of the Commission.

The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) places a legal duty on employers to notify and report some work-related accidents, diseases and dangerous occurrences.

These include, for example, deaths, injuries to employees, members of the public or people not at work, some work-related diseases and dangerous occurrences (where no injury results, but could have done).

Directors' Report

for the year ended 31 March 2009

The Directors present their report for the year to 31 March 2009.

Financial results for the year

Profit for the year was £152.1m (2008: £172.9m).

Share capital

There has been a reduction during the year to the company's issued share capital of £765m to £10m in shares of £1 each fully paid (2008: £775m), all of which is held by Kelda Group Ltd. This was part of a capital reduction exercise which led to distributable reserves increasing by £765m (see note 17, on page 38).

Business review

A review of the development and performance of the business of the company, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the company are set out in the business review on pages 1 to 12.

The purpose of this annual report is to provide information to company's stakeholders and contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this report should be construed as a profit forecast.

Principal activities

The directors' report should be read in conjunction with the business review. The principal activities of the company are the supply of clean water and the treatment and disposal of waste water in Yorkshire, for which the company is the water and sewerage undertaker. The majority of the company's operations are regulated by Ofwat.

Directors

The directors who served during the year, including any changes, are shown below.

John Napier (resigned 1.9.08)	Chairman
Kevin Whiteman	Chief Executive and Chairman
Allison Bainbridge	Director of Finance
Richard Flint	Chief Operating Officer
Graham Dixon	
Alan Harrison	
Jonathan Hodgkin (appointed 30.4.08)	
Julie Allan	

Non executive Directors

Roger Hyde
Stuart Baldwin
Martin Havenhand
Juan Bejar Ochoa
Kathryn Pinnock

Directors' Report

for the year ended 31 March 2009

All the directors held office at 1 April 2008 and throughout the year, unless otherwise stated. Additional information relating to directors who served during the year, including share options, is disclosed in notes 4 and 25 of the accounts.

Mark Penny was appointed as a director on 1 April 2009, and Julie Allan resigned on 29 May 2009.

The company has directors' and officers' insurance in place.

Dividends

The total dividend of £311.6m paid to the parent company, Kelda Group Ltd, in the year comprises the following:

	£m
1 st Interim dividend	94.9
2 nd Interim dividend	36.6
Special dividend	<u>180.1</u>
Total dividend for the year	<u>311.6</u>

No final dividend for the year is proposed.

The company's dividend policy is to:

- deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits;
- to pay dividends in respect of the non-appointed business reflecting the profitability of those activities; and
- where it is foreseeable that the company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy, the company can also pay special dividends as part of any capital reorganisation which the board concludes to be in the best interests of the company and complies with its obligations under its licence.

The directors consider that the dividends paid in the year are in accordance with these principles.

Reserves

An amount of £605.5m has been transferred to the profit and loss reserve, bringing the balance held in this reserve to £840.8m (after dividends in the year of £311.6m).

Research and development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2008/09, £3.8m was committed to research and development including £3.0m on fixed assets.

Directors' Report

for the year ended 31 March 2009

Fixed assets

The directors are aware that the value of certain land and buildings in the balance sheet may not be representative of their market value. However, a substantial proportion of land and buildings comprises specialised operational properties and structures for which there is no ready market and it is not therefore practicable to provide a full valuation.

Movements in fixed assets are shown in Note 9 to the accounts and include transfers to KeyLand Developments Ltd, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by Ofwat. With effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by Ofwat.

Revaluation of assets

During the year, the company changed its accounting policy in respect of certain categories of fixed assets. Previously, all assets were held at cost less accumulated depreciation. During the year, the policy was changed and residential properties, non-specialised properties and rural estates are now held in the balance sheet at valuation (less accumulated depreciation), based on their existing use value.

Further details are provided on page 34. The change in accounting policy has no impact on the profit and loss account in either 2008/09 or 2007/08 but results in an increase in net assets in both 2009 and 2008 of £52.8m.

The revaluation has no impact on bank covenants or on distributable reserves. The adjustment is intended to better reflect the value of non-specialised land and buildings in the accounts. These assets will now be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £362.3m (2008: £377.8m). This excludes expenditure on non-regulated activities of £0.1m (2008: £0.1m).

Payment of suppliers

The company's policy on the payment of suppliers is to ensure that all payments are made in accordance with the terms and conditions agreed with suppliers. For construction contracts, payment terms are covered by the appropriate Conditions of Contract, such as NEC Form of Contract, ICE 6th Edition and Model Form of Conditions of Contract for Process Plants (IChemEng).

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 28 days (31 days in 2007/08).

Instrument of Appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory accounts. These additional statements will be published by Ofwat's deadline of 15 July 2009.

Directors' Report

for the year ended 31 March 2009

Employees and employment policies

The company strives to create a positive working environment for all colleagues and places great emphasis on open two-way communications. It values involvement and engagement at all levels, recognising that everyone in the business is a potential source of innovation and change. Internal consultation and communication processes provide the key to this involvement and play a major part in achieving our vision to be a great place to work.

The company communications strategy is based on a 'face to face first' approach and all messages are delivered through 'two-way' channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and senior management. The company magazine *Connections* is distributed throughout the business and aims to provide business news through the eyes of the company's employees.

Regular employee satisfaction surveys are undertaken throughout the company, using a variety of survey tools including telephone-based, online and paper-based surveys. These surveys highlight what is going well and provide the company with valuable information about where to place more emphasis to really make a difference to how people feel at work.

The company promotes freedom of association, principally through its diversity strategy and through its information and consultation framework. In addition to collective bargaining arrangements with its recognised trade unions, consultative forums take place across the company, comprising elected (union and non-union) employees who meet regularly with directors and senior managers.

The company's equality and diversity, 'open to all', policy covers gender, marital status, parental status, sexual orientation, race, colour, ethnic or national origin, disability, age, religion or belief and trade union membership. Yorkshire Water has won an award sponsored by Personnel Today for Diversity in the Workplace, following a diversity recruitment project and a successful diversity conference for colleagues and external colleagues. The company's business-focused approach to diversity has also featured as a case study on a website created by the London Development Agency for businesses in their region. In 2008/09 we have run a series of events focusing on 6 themes including, part-time working, gender, disability, stereotypes, mental health and religious beliefs. These events have been welcomed by managers and have continued to raise awareness about diversity. We have an active approach to keeping employees who become disabled in employment and our commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK Employment Service.

A 'total reward' approach is taken to salary and benefits which are designed to be competitive. Performance related pay gives colleagues at all levels the opportunity to share in the success of the business, through quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

As Yorkshire Water looks to the future, the company is focused on planning for future roles and skills, ensuring that plans are in place to meet our needs. Our approach includes understanding people's career aspirations, meeting development needs and actively mitigating resourcing challenges to ensure that we retain our best talent.

The Company places value and emphasis on the development of leadership capability and believes that everyone can demonstrate leadership skills. This commitment is

Directors' Report

for the year ended 31 March 2009

demonstrated through our focus on leadership development for managers and senior managers across the business and the company's commitment to embedding a coaching culture. This enables people to learn and grow by identifying and focusing on their own development areas. The company provides a wide range of development opportunities, including in-house and accredited programmes to help employees develop the necessary skills, knowledge, values and experience to realise their performance potential.

Health and safety

Yorkshire Water is committed to achieving high health and safety standards throughout its businesses. The management of health and safety issues operates in the context of the health and safety policy adopted by the board and the system of internal control.

The company operates within a framework of policy procedural requirements and must have in place appropriate health and safety policies and procedures and provide necessary information, instruction, training and supervision. In addition, the company provides occupational health, safety and welfare advisory services for employees.

Specific health and safety goals are also set by individual businesses. These goals differ depending on the business and include a combination of reductions of accidents and working time lost as a result of accidents, training delivery, internal safety audits and health promotion and surveillance programmes.

Senior management awareness and active employee involvement in health and safety is fundamental to company success. A new Think Safety First programme was launched in Yorkshire Water during 2006 and is further developed each year. This programme includes projects for sharing personal accident experiences, promoting key safety messages, managers leading by example, rewarding and recognising colleagues and implementing a behavioural safety coaching process.

Consultation with all employees via area and functional health and safety forum groups and safety committees is actively encouraged. Where possible, the intent is for local health and safety issues to be discussed and resolved with line management. In Yorkshire Water there are health and safety champions who work alongside the Trade Union safety representatives and line management. This ensures that health and safety issues are regularly discussed within each team in the Water and Environmental business units.

By the nature of accidents, there can be no guarantee that they will never occur. However, the measures taken by the company are intended to place emphasis on prevention and continuing vigilance. Yorkshire Water has again been awarded a National Safety Award from the British Safety Council and a Gold Award for Occupational Safety from the Royal Society for the Prevention of Accidents for its health and safety performance during 2008/09.

Corporate Governance Report

For the Year Ended 31 March 2009

Corporate governance

Throughout the year the board remained accountable to the company's shareholder for maintaining standards of corporate governance. The following is an explanation of the measures taken by the company.

The board of directors

The board held ten scheduled meetings during the year. Additional meetings were held where it was considered appropriate or where business needs required. In addition, meetings of committees of the board were held when required. The board had a schedule of matters reserved for its decision.

The board determines the company's strategic objectives and key policies, and approves the business plans for the company, interim and final financial statements, recommendations of dividends, significant investment and major new business proposals, as well as significant organisational matters and corporate governance arrangements. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

All new directors, where applicable, received an induction and training on joining the board, including information about the company and their responsibilities, meetings with key managers, and visits to the company's operations. There is an agreed procedure for directors to take independent professional advice at the company's expense in furtherance of their duties in relation to board or committee matters. Directors have access to the company secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The company has directors' and officers' liability insurance in place.

At the end of the year, the Yorkshire Water board comprised an executive chairman, six executive directors and five non executive directors.

The board has delegated certain authority to board committees as and when appropriate. The company does not have its own remuneration, audit or corporate social responsibility (CSR) committees but these are operated at group level by Kelda Holdings Ltd, the company's ultimate parent company.

Kelda Holdings Ltd audit committee

Roger Hyde, who is an independent non executive director, sits on the Kelda Holdings Ltd audit committee and four group directors comprise the balance of the committee. The external auditors, the head of internal audit and the company secretary attend all meetings. The group finance director attends by invitation. The committee also meets with the external auditor without the presence of executive management when it considers it necessary or appropriate to do so. The committee chairman reports on the activities of the committee to the group board meeting immediately following each committee meeting.

The audit committee's key tasks include:

- reviewing and monitoring of the integrity of the annual financial statements;

Corporate Governance Report

For the Year Ended 31 March 2009

- reviewing the company's system of internal control, including financial, operational, compliance and risk management;
- overseeing the company's relationship with the external auditor, agreeing the nature and scope of the audit and reviewing the independence and objectivity of the external auditor; and
- monitoring and reviewing the effectiveness of the internal audit function.

In undertaking these tasks the committee receives and reviews work carried out by the internal and external auditors and their findings. Both the internal and external auditors work to an annual plan developed in consultation with the committee. In addition, the committee reviews specific business areas and processes from time to time. During the year, the committee was reconstituted following the de-listing of the group company as a public Ltd company.

The regular business of the audit committee includes consideration of reports on financial statements, audit planning, the activities of internal audit and its key findings, and the consideration of the operation of internal control processes.

The independence and objectivity of the external auditors is considered on a regular basis, with particular regard to the level of non audit fees.

The group has adopted an auditor independence policy which establishes procedures and guidance under which the company's relationship with its external auditors is governed so that the audit committee is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process.

Corporate social responsibility committee

Kevin Whiteman and Roger Hyde are members of the committee. The committee recommends to the holding company board appropriate corporate social responsibility policies and procedures. It is responsible for the updating the corporate social responsibility review which is available on the internet at <http://csr.keldagroup.com>

Internal control

An ongoing process, in accordance with the guidance of the Turnbull Committee on Internal Control, has been established for identifying, evaluating and managing the significant risks faced by the company and this has been in place for the year under review and up to the date of approval of the annual report and accounts. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The company has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities.

The company's risk management process aims to be comprehensive, systematic and continuous, and based on constant monitoring of business risk. The key features of the process include the following:

Corporate Governance Report

For the Year Ended 31 March 2009

- The main risks facing the company are identified and recorded in a strategic risk register together with the control mechanisms applicable to each risk. These are collated from risk registers maintained by individual businesses.
- There is clear allocation of management responsibility for risk identification, recording, analysis and control.
- The audit committee reviews the effectiveness of the systems which are in place and reports to the group holding company board.
- A risk management forum, chaired during the year by the group company secretary, has been established with formal terms of reference comprising senior management from key disciplines and operating companies. It advises and assists operational managers and the board on the implementation of the risk management process and monitors risk on behalf of the board. It reports to the audit committee.
- Business units are required to report annually on principal business risks and the operation of control mechanisms.
- The internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process.

The audit committee reviews and monitors the effectiveness of the process on behalf of the group holding company board.

In addition to this process, the business is subject to: a quarterly comprehensive review by the executive team; independent internal and external audits which were reported to the executive team and the audit committee; an extensive budget and target-setting process; a quarterly reporting and forecasting process reviewing performance against agreed objectives; appropriate delegated authority levels; established financial policies and procedures; and other risk management policies and procedures such as health and safety and environmental policies.

Environment

The environmental policy of the company recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business.

Environmental performance is reported through the company's website which is regularly updated. This can be viewed at www.yorkshirewater.com/our-environment.aspx

Community

The company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds.

Corporate Governance Report

For the Year Ended 31 March 2009

Going concern

After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' statement as to disclosure of information to auditors

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken steps as he or she should have taken as a director in order to make him or herself aware of any relevant audit information, and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

Stuart McFarlane
Company Secretary
15 June 2009

Profit and Loss Account

for the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Turnover		838.4	795.5
Operating costs	2	(484.1)	(446.3)
Exceptional operating costs	2	(11.2)	(7.0)
Total operating costs		(495.3)	(453.3)
Operating profit		343.1	342.2
Exceptional profit on disposal of fixed assets	3	-	17.5
Profit on ordinary activities before interest and tax		343.1	359.7
Net interest payable	5	(76.7)	(144.6)
Profit before tax		266.4	215.1
Tax charge on profit on ordinary activities	6	(114.3)	(42.2)
Profit for the year	17	152.1	172.9

All of the above results relate to continuing activities.

There is no material difference between the profit before tax and the profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the revaluation of certain tangible fixed assets.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Profit for the year and recognised gains for the year		152.1	172.9
Prior year adjustment	17	52.8	-
Total gains recognised since last annual report		204.9	172.9

Balance Sheet

as at 31 March 2009

	Notes	2009 £m	2008 (restated) £m
Fixed assets			
Intangible assets	8	9.4	10.4
Tangible assets	9	4,224.5	4,076.0
Investments	10	16.7	16.7
		4,250.6	4,103.1
Current assets			
Stock	11	0.8	0.7
Debtors falling due within one year	12	172.4	140.8
Debtors falling due after more than one year	12	296.7	-
Debtors	12	469.1	140.8
Cash and short term deposits	14	18.4	-
		488.3	141.5
Creditors: amounts falling due within one year			
Short term borrowings	14	(31.6)	(174.5)
Other creditors	13	(318.8)	(300.3)
		(350.4)	(474.8)
Net current assets / (liabilities)		137.9	(333.3)
Total assets less current liabilities		4,388.5	3,769.8
Creditors: amounts falling due after more than one year			
Long term borrowings	14	(1,185.1)	(752.0)
Other creditors	13	(1,757.9)	(1,760.8)
		(2,943.0)	(2,512.8)
Provisions for liabilities and charges	15	(538.8)	(191.2)
Net assets		906.7	1,065.8
Capital and reserves			
Called up share capital	16	10.0	775.0
Profit and loss account	17	840.8	235.3
Share based payment reserve	17	3.1	2.7
Revaluation reserve	17	52.8	52.8
Total shareholders' funds	17	906.7	1,065.8

The financial statements on pages 22 to 43 were approved by the board of directors on 15 June 2009 and signed on their behalf by:

Kevin Whiteman
Chairman

Notes to the Accounts

4. ACCOUNTING POLICIES

The following paragraphs summarise the more important accounting policies applied in the preparation of the accounts.

Basis of preparation and accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain tangible fixed assets, in compliance with all applicable United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the accounts, with the Companies Act 1985.

The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the company's circumstances, have been consistently applied other than the change to the tangible fixed asset policy and are supported by reasonable and prudent estimates and judgements.

The financial statements present information about the company as an individual company undertaking and do not contain consolidated financial information as the parent of a group. The company is exempt from preparing group financial statements under Section 228A of the Companies Act 1985 as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate UK parent, Kelda Eurobond Co Ltd, a company registered in England and Wales.

The accounts do not include a cashflow statement because the cashflows of the company are consolidated in the cashflow statement of the holding company in accordance with FRS 1 (Revised).

Prior year adjustment

During the year, the company changed its accounting policy in respect of certain categories of fixed assets, all of which were included within land and buildings. Previously, all assets were held at cost less accumulated depreciation. During the year, the policy was changed and the following categories of assets are held in the balance sheet at valuation (less accumulated depreciation), based on their value in their existing use:

Residential properties
Non-specialised properties
Rural estates

All other assets will continue to be held at cost less accumulated depreciation.

The change from cost to valuation represents a change in accounting policy and has therefore been included in these financial statements as a prior year adjustment. This has required a restatement of fixed assets and revaluation reserve. The impact of this change in policy has no impact on the profit and loss account in either 2009 or 2008 but results in an increase in net assets in both 2009 and 2008 of £52.8m.

Turnover

Turnover comprises charges to customers for water, sewerage and other services excluding value added tax and is derived only from the United Kingdom.

Turnover is not recognised until the service has been provided to the customer. Turnover relates to charges due in the year, excluding any amounts paid in advance. Turnover for

Notes to the Accounts

measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

Pensions

The company accounts for its pensions in accordance with FRS 17 "Retirement Benefits". The company's employees are able to participate in the Kelda Group Pension Plan (KGPP), a group defined benefit pension scheme as described in Note 20 of the financial statements. The KGPP is a group multi-employer scheme, such that the company's pension schemes' assets and liabilities are included with those of other companies in the KGPP. The company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes.

Share based payments

Savings related share option scheme

In prior years, the then ultimate parent company, Kelda Group Ltd, operated a savings related share option scheme under which options were granted to employees. The fair value of options granted in exchange for employee services rendered was recognised as an expense in the income statement with a corresponding credit to equity.

The total amount expensed over the vesting period was determined by the fair value of the option at the date of the grant. The fair value of the option calculated was determined by use of mathematical modelling including the Black Scholes option pricing model.

The group re-assesses its estimate of the number of options that are expected to become exercisable at each balance sheet date. Any adjustments to the original estimates are recognised in the income statement (and equity). No expense is recognised for awards that did not ultimately vest, except for awards where vesting was conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition was satisfied, provided that all other performance conditions are satisfied.

During the prior year, the scheme was closed following the acquisition of Kelda Group Ltd by Saltaire Water Ltd. Certain schemes have been allowed to continue until the planned maturity with members choosing whether to continue contributing. For any member who has taken that option, charges to the income statement will continue until the maturity of the scheme. For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme.

Long Term Incentive Plan

In previous years, the group ran a share based Long Term Incentive Plan (LTIP). Awards under the plan had 2 separate vesting conditions, both of which were dependent on market-based conditions (Kelda shareholder return against a comparator group and against the market). The market-based conditions of the award were taken into account in valuing the award at the grant date. At each subsequent balance sheet date, the group revised its estimate of the number of employees who would receive awards. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

In the prior year, the plan was closed following the acquisition of Kelda Group Ltd by Saltaire Water Ltd. Any vesting which occurred as a result of the takeover was dealt with in the same way as in previous years.

Notes to the Accounts

For both share options and LTIPs, the corresponding entries to equity represent capital contributions from the parent company. When the amounts are recharged by the parent, a corresponding entry to reserves is recorded.

Research and development expenditure

Research and development expenditure is written off in the profit and loss account in the financial year in which it is incurred. Expenditure on fixed assets relating to development projects is written off over the expected useful life of those assets.

Taxation

The taxation charge is based on the result for the year as adjusted for disallowable and non taxable items using current rates and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date, subject to the following:

- provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted.

Investments

Other fixed asset investments are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Intangible assets

Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised and amortised on a straight line basis over its economic useful life, which normally will not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets and depreciation

Tangible fixed assets comprised the following:

Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets to increase capacity or enhance the network and to maintain the operating capability of the network in accordance with defined standards of service is treated as a fixed asset addition and included at cost after deducting grants and contributions.

Notes to the Accounts

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network based on an independently certified asset management plan.

Other tangible fixed assets

Following the change in accounting policy, residential properties, non-specialised properties and rural estates held within Land and Buildings are held at valuation. Other tangible fixed assets are included at cost, which represents the purchase price, less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are not recognised.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets (including those assets held at valuation, where appropriate) on a straight-line basis over their estimated economic lives, or the estimated useful economic lives of their individual major components, from the month following commissioning. Useful economic lives are principally as follows:

Buildings	25 – 60 years
Fixed plant	5 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

Fixed plant, vehicles, mobile plant and computers are classified as plant and equipment within note 9.

Residential properties, non-specialised properties and rural estates are held at valuation with external valuations being undertaken on a periodic basis. An interim valuation is booked in the intervening years if there has been a material change.

Leased assets

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in tangible fixed assets and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the profit and loss account over the shorter of the estimated useful life and the term of the lease. If the operational life of an asset is longer than the lease term, and the agreement allows an extension to that term, the asset may be depreciated over its operational life. The capital element of lease payments reduces the obligation to the lessor and the interest element is charged to the profit and loss account over the term of the lease in proportion to the capital amount outstanding.

All other leases are operating leases and the rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Grants and contributions

Grants and contributions in respect of tangible assets, other than infrastructure assets as described below, are deferred and credited to the profit and loss account by instalments over the expected economic useful lives of the related assets.

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. The presentation is adopted because infrastructure assets do not have determinable finite lives and therefore such grants and contributions would remain as liabilities in perpetuity. The directors consider that the company's presentation shows a true and fair view of the investment in infrastructure assets.

Notes to the Accounts

The effect on the company's balance sheet of this departure is to decrease the net book value of tangible fixed assets by £371.0m (2008: £346.7m).

Grants and contributions received in respect of expenditure charged to the profit and loss account during the year are included in the profit and loss account.

Stocks

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is stated at the lower of cost and net recognised value. Cost includes labour, materials, and an appropriate proportion of overheads.

Receipts in advance

Receipts in advance include the monies received from customers where the related turnover has not yet been recognised and also grants and contributions received in relation to capital schemes where the work has not yet commenced. They are recognised within other creditors until the related revenue or costs are recognised.

Foreign currencies

Individual transactions denominated in foreign currencies are translated into sterling at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the balance sheet date. Profits and losses on both individual currency transactions settled during the year and unsettled monetary assets and liabilities are dealt with in the profit and loss account.

Provisions

Provision is made in accordance with FRS 12 for self insured claims, including an estimate for claims incurred but not reported.

Provisions also include interest rate swaps novated from Saltaire Water Limited to Yorkshire Water during the year. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value and are held in the balance sheet as a provision. This provision is being amortised over the life of the swaps (38 years) and is not discounted.

Financial instruments

Trade debtors and creditors

Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated recoverable amounts. There is no intention to trade the debtors. Trade creditors are not interest bearing and are stated at their nominal value.

Interest rate swaps

Interest rate swaps are used to hedge the company's exposure to fluctuations in interest rates on its borrowings. The amounts payable or receivable in respect of interest rate swaps are accounted for on an accruals basis through adjustments to the interest expense of the corresponding liability.

The company is not required to prepare its financial statements in accordance with FRS 26 and as such its interest rate swaps are held off balance sheet and are not marked to market.

The company's provisions balance includes an amount for interest rate swaps following the novation of the swaps from Saltaire Water Limited to Yorkshire Water.

Notes to the Accounts

2. OPERATING COSTS

Net operating costs (before exceptional costs) are shown below:

	2009	2008
	£m	£m
Own work capitalised	(27.8)	(26.2)
Raw materials and consumables	16.6	13.7
Other external charges	221.0	199.0
Wages and salaries	66.6	66.9
Social security costs	5.2	6.0
Other pension costs	15.0	14.6
Depreciation of fixed tangible assets:		
On owned assets		
- infrastructure	51.2	49.1
- other assets	126.6	121.0
On assets held under finance leases		
- infrastructure	2.1	1.8
- on other assets	9.4	10.7
Operating lease rentals		
- plant and equipment	2.4	2.3
- other	0.4	0.4
Amortisation of grants & contributions	(3.1)	(3.2)
Amortisation of goodwill on subsidiary undertakings	1.0	0.9
Restructuring costs	0.8	0.9
Research and development	0.8	0.8
Other operating income	(4.1)	(12.4)
	484.1	446.3

Exceptional operating costs

During the year Yorkshire Water incurred costs of £11.2m in respect of the whole business securitisation of Yorkshire Water and its subsidiary companies, which will provide a permanent and stable platform from which the long term financing can be secured. These costs will not be borne by customers.

During the prior year costs of £7.0m included £4.7m of exceptional restructuring costs relating to reductions in manpower required to achieve the company's efficiency targets and payments of £2.3m relating to the termination of long term incentive plans following the acquisition of Kelda Group plc by Saltaire Water Ltd.

Audit services

During the year the company obtained the following services from the company's auditors at costs as detailed below:

	2009	2008
	£000	£000
Fees payable to company auditors for the audit of the company accounts	99	92
Fees payable to the company's auditors for other services	110	19
	209	111

Notes to the Accounts

2. OPERATING COSTS (continued)

The average number of persons employed by the company during the year was:

	Number	<i>Number</i>
Employees working in the regulated business	2,194	2,234

3. EXCEPTIONAL PROFIT ON DISPOSAL OF FIXED ASSETS

There was no exceptional profit in 2009. The £17.5m exceptional profit on disposal of fixed assets in 2008 resulted from insurance proceeds of £33.0m received from insurers to replace assets damaged during the floods of 2007, offset by a £15.5m net book value of related assets written off. The cost of the replacement assets will be substantially higher and will appear within capital expenditure as incurred.

4. DIRECTORS' EMOLUMENTS

(excluding those listed below)

	2009	<i>2008</i>
	£000	£000
Aggregate emoluments	1,229	1,742
The amounts in respect of the highest paid director are as follows:		
Emoluments	287	390

Kevin Whiteman and Allison Bainbridge are directors of Kelda Holdco Ltd, and their emoluments are shown in the accounts of that company. John Napier was a director of Kelda Group Ltd and his emoluments are shown in the accounts of that company. Stuart Baldwin and Juan Bejar Ochoa are non-executive directors of Kelda Holdings Ltd and their emoluments are shown in the accounts of that company.

All executives have service agreements which are terminable by the company on 12 months' notice.

During 2008/09, all except one executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. One director was a contributory member of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2008/09 was £36,942 (2007/08: £72,960). Two directors have exercised share options during the year (2008: 1).

5. NET INTEREST PAYABLE

	2009	<i>2008</i>
	£m	£m
Interest payable on:		
Bank loans and overdrafts	34.4	24.9
Finance leases	23.1	25.2
Inter-company loans	77.8	96.9
RPI uplift on index linked swaps	19.7	-
Other	1.9	0.4
	156.9	147.4
Interest receivable:		
Inter-company loans	(10.3)	(0.8)
Index linked swaps	(60.4)	-
Amortisation of fair value of index linked swaps	(5.3)	-
Other	(4.2)	(2.0)
	76.7	144.6

Notes to the Accounts

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£m	£m
Current tax		
Corporation tax at 28% (2008: 30%)	19.1	52.7
Group relief payments	51.3	0.3
Adjustments in respect of prior years	<u>(0.2)</u>	<u>-</u>
Total current tax	<u>70.2</u>	<u>53.0</u>
Deferred tax		
Charge for timing differences arising and reversing in the year	3.4	11.2
Effect of abolition of industrial buildings balancing allowances/charges	-	(20.4)
Adjustments in respect of prior years	(0.3)	1.9
Effect of change in corporation tax rate to 28% (2008:28%)	-	(38.8)
	<u>3.1</u>	<u>(46.1)</u>
Decrease in discount	<u>41.0</u>	<u>35.3</u>
Total deferred tax (see Note 15)	<u>44.1</u>	<u>(10.8)</u>
Total tax charge on profit on ordinary activities	<u>114.3</u>	<u>42.2</u>

The difference between the total current tax charge shown and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2009	2008
	£m	£m
Profit before tax	<u>266.4</u>	<u>215.1</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2008: 30%)	74.6	64.5
Effects of:		
Expenses not deductible/ income not chargeable for tax purposes	(0.8)	(0.2)
Share-based payments	-	(0.1)
Capital allowances in excess of depreciation and other timing differences	(3.4)	(11.2)
Adjustments in respect of prior years	(0.2)	-
Current tax charge for the year	<u>70.2</u>	<u>53.0</u>

Notes to the Accounts

The tax charge in future periods may be affected by the following factors:

- capital investment is expected to remain at similar levels. The company expects to be able to continue to claim capital allowances in excess of depreciation in future years.
- changes in the medium and long-term interest rates used to discount deferred tax assets and liabilities will affect the amount of deferred tax charged in the profit and loss account.

From 1 April 2008, the UK corporation tax rate changed from 30% to 28%. Comparative figures for current tax are, therefore, based on the 30% tax rate.

Also, from 1 April 2008, the annual allowances available for capital allowance plant pools changed from 25% p.a. to 20% p.a. (general pool) and 6% p.a. to 10% p.a. (long life pool). In addition, industrial buildings allowance (currently 4%) will be phased out over a period ending in March 2011. The net impact of the above changes is not expected to be material.

7. DIVIDENDS

	2009	<i>2008</i>
	£m	£m
Equity ordinary		
Prior year final dividend paid	-	82.9
Interims paid	131.5	29.2
Special interim dividends	180.1	-
	<u>311.6</u>	<u>112.1</u>

No final dividend for the year has been proposed. The special dividend of £180.1m was paid in relation to drawdown of debt by Yorkshire Water which had been incurred by Saltaire Water Ltd at the time of its acquisition of Yorkshire Water's parent company, Kelda Group Ltd.

8. INTANGIBLE ASSETS

	<i>Goodwill</i>
Cost	£m
Balance at 1 April 2008 and 31 March 2009	17.9
Amortisation	
Balance at 1 April 2008	(7.5)
Charge for the year	(1.0)
	<u>(8.5)</u>
Balance at 31 March 2009	<u>9.4</u>
Net book amount as at 31 March 2009	9.4
Net book amount as at 31 March 2008	<u>10.4</u>

Goodwill arose on the transfer of the trade and net assets of The York Waterworks Ltd and is being amortised over 19 years.

Notes to the Accounts

9. TANGIBLE ASSETS

	Land and buildings (restated) £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or Valuation					
At 1 April 2008 as previously stated	1,481.9	2,498.2	2,013.8	374.5	6,368.4
Prior year adjustment (page 34)	51.0	-	-	-	51.0
At 1 April 2008 as restated	1,532.9	2,498.2	2,013.8	374.5	6,419.4
Additions	16.4	41.0	56.2	248.8	362.4
Transfers on commissioning	48.4	61.4	77.6	(187.4)	-
Transfers to other Group companies	(0.1)	-	-	-	(0.1)
Disposals - external	(1.3)	-	(7.1)	(0.1)	(8.5)
Grants and contributions	-	-	-	(24.3)	(24.3)
At 31 March 2009	1,596.3	2,600.6	2,140.5	411.5	6,748.9
Depreciation					
At 1 April 2008 as previously stated	478.0	910.5	956.7	-	2,345.2
Prior year adjustment (page 34)	(1.8)	-	-	-	(1.8)
At 1 April 2008 as restated	476.2	910.5	956.7	-	2,343.4
Disposals	(1.2)	-	(7.0)	(0.1)	(8.3)
Depreciation for the year	30.1	53.3	105.8	0.1	189.3
At 31 March 2009	505.1	963.8	1,055.5	-	2,524.4
Net book amount at 31 March 2009	1,091.2	1,636.8	1,085.0	411.5	4,224.5
Net book amount at 31 March 2008	1,056.7	1,587.7	1,057.1	374.5	4,076.0

At 31 March 2009 assets included above held under finance leases amounted to:

Cost	126.5	99.9	207.1	-	433.5
Depreciation	(29.6)	(17.5)	(117.2)	-	(164.3)
Net book amount at 31 March 2009	96.9	82.4	89.9	-	269.2
Net book amount at 31 March 2008	99.0	74.4	97.2	10.2	280.8

	Valuation at 31 March 2009 £m	Depreciation at 31 March 2009 £m	Net book value at 31 March 2009 £m
The net book amount of land and buildings comprised:			
Freehold properties	1,594.7	(504.6)	1,090.1
Properties held on long lease	0.5	-	0.5
Properties held on short lease	1.1	(0.5)	0.6
	1,596.3	(505.1)	1,091.2

Notes to the Accounts

9. TANGIBLE ASSETS (continued)

	Net book value at 31 March 2008 As reported £m	Prior year adjustment £m	Net book value at 31 March 2008 Re-stated £m
The net book amount of land and buildings comprised:			
Freehold properties	1,002.7	52.8	1,055.5
Properties held on long lease	0.5	-	0.5
Properties held on short lease	0.7	-	0.7
	<u>1,003.9</u>	<u>52.8</u>	<u>1,056.7</u>

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The company's accounting policy in respect of grants and contributions is a departure from the Companies Act 1985 requirements and is adopted, as explained in the accounting policy note on page 27, in order to show a true and fair view of the investment in infrastructure assets. As a consequence, the net book amount of fixed assets is £371.0m (2008: £346.7m) lower than it would have been had this treatment not been adopted.

Certain categories of the company's land and buildings were revalued at 31 March 2009, on the basis of existing use value by independent qualified valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

Non-specialist properties	DTZ Debenham Tie Leung Ltd
Rural estates	Carter Jonas LLP
Residential properties	Savills (L&P) Ltd

The revaluations were based on values as at 31 March 2009. The prior year adjustment has been applied to opening reserves as at 1 April 2007 as the directors do not consider the impact on 2008/09 to be material.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year ended 31 March 2009 resulted in a revaluation surplus of £52.8m (see note 17).

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

Categories of assets revalued are as follows:

	Valuation £m	Historical cost basis £m
Non-specialist properties	7.5	2.4
Rural estates	43.9	0.8
Residential properties	4.7	0.1
	<u>56.1</u>	<u>3.3</u>

Analysis of the net book value of revalued assets is as follows:

	Valuation £m	Historical cost basis £m
At cost	56.1	5.1
Aggregate depreciation	-	(1.8)
	<u>56.1</u>	<u>3.3</u>

Notes to the Accounts

10. INVESTMENTS

	Shares in group undertakings £m	Other unlisted investments £m	Total £m
Cost and net book value as at 1 April 2008 and 31 March 2009	16.6	0.1	16.7

Shares in group undertakings

The balance at 1 April 2008 and 31 March 2009 relates to the 100% holding in The York Waterworks Ltd which was written down to the value of the underlying net assets in 2001 and the 99.9% holding in Yorkshire Water Services Finance Ltd (formerly plc), whose principal activity is the raising of finance.

Other unlisted investments

The company holds £27,119 of 8% Unsecured Loan Stock in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry.

The company has taken advantage of the exemption from preparing group accounts under section 228a of The Companies Act 1985. Consolidated accounts have been prepared by Kelda Eurobond Ltd, the largest UK group to consolidate these accounts. Copies can be obtained from the Company Secretary, Kelda Eurobond Ltd, Western House, Halifax Road, Bradford, BD6 2SZ.

11. STOCK

	2009	2008
	£m	£m
Raw materials and consumables	0.7	0.4
Work in progress	0.1	0.3
	0.8	0.7

12. DEBTORS

	2009	2008
	£m	£m
Receivable within one year		
Trade debtors	73.0	65.1
Amounts owed by group undertakings	23.5	2.0
Amounts owed by associated undertakings	0.3	0.4
Prepayments and accrued income	65.1	66.2
Other debtors	10.5	7.1
	172.4	140.8
Receivable after more than one year		
Amounts owed by group undertakings	296.7	-
	469.1	140.8

Amounts owed by group undertakings include £308.9m in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Ltd to Yorkshire Water in August 2008. This value is split between those amounts receivable within one year (£12.2m) and amounts receivable after more than one year (£296.7m).

Notes to the Accounts

13. OTHER CREDITORS

	2009	2008
	£m	£m
Amounts falling due within one year:		
Trade creditors	38.2	46.7
Capital creditors	61.2	44.3
Deferred grants and contributions on depreciating fixed assets	3.0	3.1
Amounts owed to group undertakings	57.7	54.0
Amounts owed to subsidiary undertakings	55.1	27.0
Social security and other taxes	1.6	3.6
Taxation payable	15.3	23.4
Receipts in advance	51.8	57.4
Other creditors	34.9	40.8
	318.8	300.3
Amounts falling due after more than one year:		
Amounts owed to parent company	-	440.0
Amounts owed to subsidiary undertakings	1,619.8	1,173.4
Deferred grants and contributions on depreciating fixed assets	75.6	76.5
Other creditors	62.5	70.9
	1,757.9	1,760.8

14. AGGREGATE BORROWINGS AND CASH

	2009			
	<i>Bank loans and overdrafts</i>	<i>Other loans</i>	<i>Finance leases</i>	<i>Total</i>
	£m	£m	£m	£m
Repayments				
Short term borrowings:				
Within one year or on demand	25.0	0.6	6.0	31.6
Long term borrowings:				
Between one and two years	27.1	-	6.3	33.4
Between two and five years	564.1	-	30.0	594.1
After five years	184.7	19.7	353.2	557.6
	775.9	19.7	389.5	1,185.1
Cash at bank				(18.4)
Amounts owed to parent company				21.3
Amounts owed to subsidiary company				1,619.8
Net debt at 31 March 2009				2,839.4

Notes to the Accounts

14. AGGREGATE BORROWINGS AND CASH (continued)

	2008			Total £m
	Bank loans and overdrafts £m	Other loans £m	Finance leases £m	
Repayments				
Short term borrowings:				
Within one year or on demand	168.7	-	5.8	174.5
Long term borrowings:				
Between one and two years	25.0	1.6	6.0	32.6
Between two and five years	111.0	-	19.8	130.8
After five years	218.8	-	369.8	588.6
	354.8	1.6	395.6	752.0
Amounts owed to parent company				464.0
Amounts owed to subsidiary company				1,173.4
Net debt as at 31 March 2008				2,563.9

Borrowings repayable in instalments after more than five years include £353.2m (2008: £369.8m) in respect of finance leases which have expiry dates ranging from 2018 to 2043 and carry interest rates based on 12 month LIBOR and 6 month LIBOR (London Inter-Bank Offered Rate). The finance lease creditors are secured on the underlying assets.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Interest rate		Self	Total £m
	swaps £m	Deferred tax £m	insurance £m	
At 1 April 2008	-	190.8	0.4	191.2
Charged to profit and loss account in the year	-	44.1	0.2	44.3
Created during the year	308.9	-	-	308.9
Utilised in the year	(5.3)	-	(0.3)	(5.6)
At 31 March 2009	303.6	234.9	0.3	538.8

The provision for the fair value of swaps relates to the fair value of index linked swaps transferred from Saltaire Water Ltd in August 2008, which is being amortised over the life of the swaps and credited to the profit and loss account through interest receivable.

Deferred tax

	2009 £m	2008 £m
At 1 April 2008	190.8	201.6
Deferred tax charged/(credited) to the profit and loss account	44.1	(10.8)
At 31 March 2009	234.9	190.8

Notes to the Accounts

Deferred tax is provided as follows:

	At 31 March 2009	At 31 March 2008
	£m	£m
Accelerated capital allowances	548.0	545.2
Short term timing differences	(1.3)	(1.6)
Undiscounted provision for deferred tax	546.7	543.6
Discount	(311.8)	(352.8)
Discounted provision for deferred tax	234.9	190.8

The corporation tax rate of 28% (2008: 28%) has been used to calculate the amount of deferred tax. The effect of industrial buildings allowances has been excluded from the deferred tax calculations on account of the abolition of balancing allowances and charges announced in the Chancellor's Budget of March 2007 and introduced into legislation by Finance Act 2007. Other than this, provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances and other material timing differences. These deferred tax assets and liabilities have been discounted to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse.

16. CALLED UP SHARE CAPITAL

	Authorised	Allotted and fully paid
	£	£
775,000,000 ordinary shares of £1 each at 1 April 2008	775,000,000	775,000,000
Capital reduction	(765,000,000)	(765,000,000)
10,000,000 ordinary shares of £1 each at 31 March 2009	10,000,000	10,000,000

17. MOVEMENT IN TOTAL SHAREHOLDERS' FUNDS

	<i>P & L reserve</i>	<i>Share- based payment reserve</i>	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Total funds</i>
	£m	£m	£m	£m	£m
At 1 April 2007	174.5	2.5	775.0	-	952.0
Profit for the year	172.9	-	-	-	172.9
Dividends	(112.1)	-	-	-	(112.1)
Share-based payments amount due to parent	-	1.2	-	-	1.2
Other	-	(1.0)	-	-	(1.0)
At 31 March 2008 as previously stated	235.3	2.7	775.0	-	1,013.0
Prior year adjustment	-	-	-	52.8	52.8
At 31 March 2008 restated	235.3	2.7	775.0	52.8	1,065.8
Profit for the year	152.1	-	-	-	152.1
Dividends	(311.6)	-	-	-	(311.6)
Capital reduction	765.0	-	(765.0)	-	-
Share-based payments amount due to parent	-	0.4	-	-	0.4
At 31 March 2009	840.8	3.1	10.0	52.8	906.7

Notes to the Accounts

The company has changed its accounting policy in respect of certain fixed assets which are now held in the balance sheet at valuation rather than cost. This has resulted in a credit to opening reserves of £52.8m as at 1 April 2007, for more details see note 1.

Following the changes in law as a result of the Companies Act 2006, on 1 October 2008, the company signed a solvency statement in order to undertake a capital reduction and convert £765m of share capital into distributable reserves.

18. COMMITMENTS

	2009	2008
Capital and infrastructure renewals expenditure	£m	£m
commitments for contracts placed at 31 March were:	<u>222.4</u>	<u>349.4</u>

The long term investment programme for the company, which identified substantial future capital expenditure commitments in the period 2005 to 2010, was agreed as part of the Periodic Review process which was finalised in December 2004.

At 31 March 2009 the company was committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	2009	2009	2008	2008
	£m	£m	£m	£m
Leases which expire:				
Within one year	0.4	1.6	-	1.4
Between one and five years	-	0.3	0.4	<u>0.2</u>
	<u>0.4</u>	<u>1.9</u>	<u>0.4</u>	<u>1.6</u>

19. CONTINGENT LIABILITIES

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Ltd (YWSF) at 31 March 2009:

	<i>Nominal</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Liability</i>
	£m	%		At 31 March 2009 £m
Fixed rate				
YWSF	200	6.875	2010	199.8
YWSF	240	6.625	2031	240.3
YWSF	200	5.375	2023	196.6
YWSF	200	5.125	2037	194.6
YWSF	150	5.5	2027	<u>148.7</u>
Total fixed:				<u>980.0</u>
Index linked				
YWSF	100	3.048	2033	121.8
YWSF	125	1.462	2051	131.5
YWSF	125	1.460	2056	131.4
YWSF	85	1.75756	2054	86.8
YWSF	100	1.7085	2058	102.0
YWSF	65	1.8225	2050	<u>66.3</u>
Total index linked:				<u>639.8</u>

Notes to the Accounts

20. PENSIONS

The company sponsors a UK pension scheme, the Kelda Group Pension Plan (KGPP). The KGPP has a number of benefit categories providing benefits on a defined benefit basis and one category providing benefits on a defined contribution basis.

Contributions during the year ended 31 March 2009 were paid by members at 3%, 4%, 4.5% or 6% of pensionable pay (depending on benefit category). The company contributed at 22.2% of members' contributions during the accounting year in respect of the majority of members.

The most recent finalised actuarial valuation of the KGPP was carried out as at 31 March 2007 when the market value of assets was £818.6m.

The company participates in the group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other subsidiary companies of Kelda Holdings Ltd. The company is unable to identify its share of the underlying assets and liabilities of the KGPP as, with the exception of Kelda Water Services (Wales) Ltd, the scheme's members are not unitised by company. The company therefore accounts for pension costs on a contribution basis.

The company's total pension charge for the year was £15.0m (2008: £14.6m). At 31 March 2009, the company had outstanding contributions of £1.9m (2008: £1.6m). An accrual for unfunded benefits of £2.0m at 31 March 2009 (2008: £1.4m) has been included in the company's accounts.

A summary of scheme position as disclosed in the Kelda Holdco Ltd accounts as at 31 March 2009 is as follows:

	2009	Expected	2008	Expected
	Market	long term	Market	long term
	value	rate of	value	rate of
		return		return
	£m	%	£m	%
Fair value of scheme assets				
Equities	368.0	7.15	474.7	7.05
Bonds	207.3	5.53	233.8	5.11
Property	42.3	7.15	68.5	7.05
Other	16.9	4.40	13.6	4.30
Total value of assets	634.5		790.6	
Present value of scheme liabilities	(668.5)		(763.3)	
Net pension (liability)/asset	(34.0)		27.3	

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Human Resource Consulting, on the basis of annual valuations using the projected unit credit method and use the following assumptions:

	2009	2008
Inflation	3.3%	3.4%
Rate of increase in salaries	4.5%	4.6%
Rate of increase to pensions in payment and deferred pensions	3.3%	3.4%
Discount rate for scheme liabilities	7.0%	6.1%
Life expectancy of male pensioner aged 60 (in years)	24.9	24.9
Projected life expectancy at age 60 for male aged 40 (in years)	26.0	26.0

Notes to the Accounts

21. ULTIMATE PARENT COMPANY

The company's immediate parent company is Kelda Group Ltd. The company's ultimate parent company and controlling party is Kelda Holdings Ltd, a company registered in Jersey.

Kelda Holdco Ltd, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate these accounts. Kelda Eurobond Ltd, a company registered in England and Wales, is the largest UK group to consolidate these accounts.

Copies of the group accounts may be obtained from the Company Secretary, Kelda Eurobond Ltd, Western House, Halifax Road, Bradford BD6 2SZ.

22. CASHFLOW STATEMENT

The accounts do not include a cashflow statement because the cashflows of the company are consolidated in the cashflow statement of Kelda Eurobond Co Ltd in accordance with FRS 1 (Revised 1996).

23. RELATED PARTY TRANSACTIONS

The company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Kelda Holdings Ltd group.

During the year the group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March, are as follows:

Related party	<i>Sales to related party</i>		<i>Amounts owed from related party</i>	
	2009	2008	2009	2008
	£000	£000	£000	£000
Brey Services Ltd	387	398	90	318
Dalriada Water Services Ltd	395	111	184	57
Aberdeen Environmental Services Ltd	7	4	2	3
	789	513	276	378

As at 31 March 2009 Kelda Water Services Ltd, a wholly owned subsidiary of Kelda Group, has a 50% interest in Brey Services Ltd; a 50% interest in Dalriada Water Services Ltd (DWS); and a 45% interest in Aberdeen Environmental Services Ltd (AES). Subsequently the interest in DWS and AES have both increased to 100%.

24. SEGMENTAL INFORMATION

For statutory purposes, the directors consider there to be only one business segment, being the provision of water and sewerage services.

Notes to the Accounts

25. SHARE-BASED PAYMENTS

Share options

In prior years the ultimate parent company, Kelda, operated a savings related share option scheme under which options were granted to employees and provided for an exercise price equal to the daily average market price on the date of grant less 20%. The options vested if the employee remained in service for the full duration of the options scheme (either 3 or 5 years).

In 2008, the scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Ltd. Certain schemes have been allowed to continue until the planned maturity with members choosing whether to continue to contribute.

		2009		2008
		Weighted average exercise price £		Weighted average exercise price £
	Options		Options	
Outstanding at the beginning of the year	1,432,753	5.76	2,264,544	5.36
Lapsed during the year	(210,238)	6.16	(198,751)	6.01
Exercised during the year	(722,143)	4.82	(633,040)	4.22
Outstanding at the end of the year	500,372	6.86	1,432,753	5.76
Of which exercisable at the end of the year	90,469	4.90	271,515	3.82

The weighted average share price at the date of exercise for share options exercised during the year was £10.90 (2008: £10.78).

The options outstanding at 31 March 2009 had a weighted average exercise price of £6.86 and a weighted average remaining contractual price of 1.4 years.

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. No shares were granted in 2009. The inputs to the Black Scholes model for 2007 were as follows:

Share price at date of grant	2007
Exercise price	926p
Expected volatility	741p
Expected life	25%
Risk free rate	3 and 5 years
Expected dividends	5.08%
	31p

Expected volatility was determined by calculating the historical volatility of the group's share price over the last 6 years of its trade.

Long term incentive plan

In previous years, the group ran a Long Term Incentive Plan (LTIP). Awards under the plan had 2 separate vesting conditions, both of which were dependent on market-based conditions. In 2008, the plan was closed following the acquisition of Kelda Group plc by Saltaire Water Ltd.

70% of the full value of the LTIPs was vested based on the company's total shareholder return (TSR) performance over the performance period (3 years). The group's share performance was

Notes to the Accounts

compared to that of 6 other UK water companies. At the end of the performance period, the TSR of all 7 companies was calculated, and the results ranked. Of the 70%, 100% vested if the group was ranked first, 60% if the group was ranked second and 20% if the group was ranked third. Otherwise, none of the 70% vested.

For the remaining 30%, the group's TSR would be compared to the constituents of the FTSE 350 index. If the group is in the top 20%, 100% will vest, if the group is at the median 30% will vest, but if the company is ranked below this none will vest.

A new Long Term Incentive Plan has been introduced during the year, but this is not a share based scheme.

		2009		2008
	LTIPs	Weighted average fair value £	LTIPs	Weighted average fair value £
Outstanding at the beginning of the year	-	-	410,718	2.27
Granted during the year	-	-	139,460	3.50
Lapsed during the year	-	-	(357,532)	2.73
Vested during the year	-	-	(192,646)	2.28
Outstanding at the end of the year	-	-	-	-

Directors' Responsibilities

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LTD

We have audited the financial statements of Yorkshire Water Services Ltd for the year ended 31 March 2009 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, Directors' responsibilities, the Business Review and Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the Yorkshire Water Services Ltd website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test

Independent Auditors' Report

basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
15 June 2009

Regulatory Accounting Information 2009

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Explanatory note

Pages 48 to 74 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Water Services Regulation Authority (Ofwat).

Historical Cost Profit and Loss Account

for the year ended 31 March 2009

	2009			2008		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	828.2	10.2	838.4	784.9	10.6	795.5
Operating costs	(357.5)	(8.1)	(365.6)	(328.5)	(7.7)	(336.2)
Historical cost depreciation	(133.8)	-	(133.8)	(129.5)	-	(129.5)
Operating income	1.9	-	1.9	27.7	-	27.7
Operating profit	338.8	2.1	340.9	354.6	2.9	357.5
Other income	2.2	-	2.2	2.2	-	2.2
Net interest	(76.7)	-	(76.7)	(144.6)	-	(144.6)
Profit on ordinary activities before taxation	264.3	2.1	266.4	212.2	2.9	215.1
Taxation - current tax	(69.6)	(0.6)	(70.2)	(52.2)	(0.8)	(53.0)
- deferred tax	(44.1)	-	(44.1)	10.8	-	10.8
Profit on ordinary activities after taxation	150.6	1.5	152.1	170.8	2.1	172.9
Dividends - interim	(131.5)	-	(131.5)	(29.2)	-	(29.2)
- special interim	(180.1)	-	(180.1)	-	-	-
- prior year final	-	-	-	(82.0)	(0.9)	(82.9)
Retained (loss)/profit for the year	(161.0)	1.5	(159.5)	59.6	1.2	60.8

The accounting policies set out on pages 24 to 28 of the statutory financial statements of Yorkshire Water Services Ltd (Yorkshire Water) apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets and the investment in The York Waterworks Ltd (explained in Note 1 on page 54).

There is no material difference between the profit before tax and the profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the re-valuation of certain tangible fixed assets.

Statement of total recognised gains and losses (historical cost accounting) for Appointed Business

for the year ended 31 March 2009

	2009	2008
	£m	£m
Profit for the year and total recognised gains for the year	150.6	170.8
Prior year adjustment	52.8	-
	203.4	170.8

During the year, the company changed its accounting policy in respect of certain categories of fixed assets, all of which were included within land and buildings. Previously, all assets were held at cost less accumulated depreciation. During the year, the policy was changed and the following categories of assets are held in the balance sheet at valuation (less accumulated depreciation), based on their value in their existing use:

Residential properties
Non-specialised properties
Rural estates

All other assets will continue to be held at cost less accumulated depreciation.

The change from cost to valuation represents a change in accounting policy and has therefore been included in these financial statements as a prior year adjustment. This has required a restatement of fixed assets and revaluation reserve. The impact of this change in policy has no impact on the profit and loss account in either 2009 or 2008 but results in an increase in net assets in both 2009 and 2008 of £52.8m.

Historical Cost Balance Sheet

as at 31 March 2009

	2009		2008 (restated)			
	Appointed	Non-	Total	Appointed	Non-	Total
	£m	£m	£m	£m	£m	£m
Fixed assets						
Tangible assets	4,237.2	4.3	4,241.5	4,083.3	4.5	4,087.8
Investment - loan to a group company	296.7	-	296.7	-	-	-
Investment - other	9.5	-	9.5	10.5	-	10.5
	4,543.4	4.3	4,547.7	4,093.8	4.5	4,098.3
Current assets						
Stocks	0.8	-	0.8	0.7	-	0.7
Debtors	158.6	1.6	160.2	138.1	2.7	140.8
Cash	18.4	-	18.4	-	-	-
Short term deposits	12.2	-	12.2	-	-	-
	190.0	1.6	191.6	138.8	2.7	141.5
Creditors: amounts falling due within one year						
Overdrafts	-	-	-	(4.2)	-	(4.2)
Infrastructure renewals accrual	(17.0)	-	(17.0)	(11.8)	-	(11.8)
Creditors	(237.5)	(0.2)	(237.7)	(232.8)	(0.4)	(233.2)
Borrowings	(55.5)	2.6	(52.9)	(194.7)	0.4	(194.3)
Corporation tax payable	(39.6)	(0.6)	(40.2)	(22.6)	(0.8)	(23.4)
	(349.6)	1.8	(347.8)	(466.1)	(0.8)	(466.9)
Net current liabilities	(159.6)	3.4	(156.2)	(327.3)	1.9	(325.4)
Total assets less current liabilities	4,383.8	7.7	4,391.5	3,766.5	6.4	3,772.9
Creditors: amounts falling due after more than 1 year						
Borrowings	(2,804.9)	-	(2,804.9)	(2,365.4)	-	(2,365.4)
Other creditors	(62.5)	-	(62.5)	(70.9)	-	(70.9)
	(2,867.4)	-	(2,867.4)	(2,436.3)	-	(2,436.3)
Provisions for liabilities and charges						
Deferred tax provision	(234.9)	-	(234.9)	(190.8)	-	(190.8)
Deferred income – grants and contributions	(74.5)	(4.1)	(78.6)	(75.3)	(4.3)	(79.6)
Other provisions	(303.9)	-	(303.9)	(0.4)	-	(0.4)
	903.1	3.6	906.7	1,063.7	2.1	1,065.8
Capital and reserves						
Called up share capital	10.0	-	10.0	775.0	-	775.0
Profit and loss account	837.2	3.6	840.8	233.2	2.1	235.3
Other reserves - share based payments	3.1	-	3.1	2.7	-	2.7
Other reserves - revaluation surplus	52.8	-	52.8	52.8	-	52.8
	903.1	3.6	906.7	1,063.7	2.1	1,065.8

The regulatory financial statements on pages 48 to 74 were approved by the board of directors on 24 June 2009 and signed on their behalf by:

Allison Bainbridge, Finance Director

Current Cost Profit and Loss Account for the Appointed Business

for the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Turnover	5	828.2	784.9
Current cost operating costs	6	(547.9)	(518.7)
Operating income	5	2.0	31.3
Working capital adjustment	5	(0.1)	1.4
Current cost operating profit		282.2	298.9
Other income		2.2	2.2
Net interest		(76.7)	(144.6)
Financing adjustment		(10.9)	98.7
Current cost profit on ordinary activities before taxation		196.8	255.2
Taxation - current tax		(69.6)	(52.2)
- deferred tax		(44.1)	10.8
Current cost profit on ordinary activities after taxation		83.1	213.8
Dividends		(311.6)	(111.2)
Current cost (loss)/profit retained		(228.5)	102.6

Current Cost Balance Sheet for the Appointed Business

for the year ended 31 March 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	8	23,722.6	23,707.2
Third party contributions since 1989/90		(404.5)	(394.0)
Other operating assets and liabilities			
Working capital	9	(29.1)	(29.3)
Cash		18.4	-
Short term deposits		12.2	-
Overdrafts		-	(4.2)
Infrastructure renewals accrual		(17.0)	(11.8)
Net operating assets		23,302.6	23,267.9
Non operating assets and liabilities			
Borrowings		(55.5)	(194.7)
Non-trade debtors		20.8	7.2
Non-trade creditors due within one year		(69.8)	(71.9)
Investment - loan to Group company		296.7	-
Investment - other		9.5	10.5
Corporation tax payable		(39.6)	(22.6)
Total non operating assets and liabilities		162.1	(271.5)
Creditors: amounts falling due after more than one year			
Borrowings		(2,804.9)	(2,365.4)
Other creditors		(62.5)	(70.9)
Total creditors falling due after more than one year		(2,867.4)	(2,436.3)
Provisions for liabilities and charges			
Deferred tax provision		(234.9)	(190.8)
Other provisions		(303.9)	(0.4)
		(538.8)	(191.2)
Net assets		20,058.5	20,368.9
Capital and reserves			
Called up share capital		10.0	775.0
Profit and loss account		260.5	(276.0)
Other reserves		3.1	2.7
Current cost reserve	10	19,784.9	19,867.2
		20,058.5	20,368.9

Current Cost Cash Flow Statement

for the year ended 31 March 2009

	Notes	2009			2008		
		Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Net cash flow from operating activities	11	502.4	3.0	505.4	517.2	2.0	519.2
Returns on investments and servicing of finance							
Interest received		63.1	-	63.1	2.8	-	2.8
Interest paid		(107.6)	-	(107.6)	(99.7)	-	(99.7)
Interest in finance lease rentals		(28.6)	-	(28.6)	(22.1)	-	(22.1)
Net cash flow from returns on investments and servicing of finance		(73.1)	-	(73.1)	(119.0)	-	(119.0)
Taxation							
Tax paid		(52.9)	(0.8)	(53.7)	(73.6)	(0.6)	(74.2)
Capital expenditure and financing of investment							
Gross cost of purchase of fixed assets		(285.8)	-	(285.8)	(338.7)	-	(338.7)
Receipt of grants and contributions		15.1	-	15.1	13.9	-	13.9
Infrastructure renewals expenditure		(48.1)	-	(48.1)	(48.3)	-	(48.3)
Disposal of fixed assets		2.4	-	2.4	45.1	-	45.1
Net cash outflow from investing activities		(316.4)	-	(316.4)	(328.0)	-	(328.0)
Equity dividends paid		(311.6)	-	(311.6)	(111.2)	(0.9)	(112.1)
Net cash (outflow)/inflow before financing		(251.6)	2.2	(249.4)	(114.6)	0.5	(114.1)
Financing							
New leasing finance		-	-	-	70.0	-	70.0
Capital element in finance lease rentals		(5.8)	-	(5.8)	(60.8)	-	(60.8)
New bank loans		467.4	-	467.4	730.9	-	730.9
Repayment of bank loans		(189.6)	-	(189.6)	(627.9)	-	(627.9)
Net cash inflow from financing		272.0	-	272.0	112.2	-	112.2
Increase/(decrease) in cash		20.4	2.2	22.6	(2.4)	0.5	(1.9)

Notes to the Regulatory Accounting Information

1. ACCOUNTING POLICIES - CURRENT COST INFORMATION

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Ltd in accordance with guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory accounts, except as set out below.

Infrastructure assets

As noted on page 48, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals is shown separately in the current cost balance sheet.

Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

The modern equivalent asset values (MEA) arising from the last Periodic Review are incorporated in the 2008/09 Regulatory Accounting Information.

The revaluation of historical cost fixed assets described on page 49 does not affect the current cost accounting information.

- Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

- Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

Notes to the Regulatory Accounting Information

- **Other fixed assets**

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

- **Surplus land**

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Instrument of Appointment.

Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

- **Working capital adjustment**

This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.

- **Financing adjustment**

This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

Investment in York Waterworks

The intangible assets accounting policy on page 26 and Note 8 of the statutory financial statements of Yorkshire Water outline the treatment of the transfer of the trade and net assets of The York Waterworks Ltd to Yorkshire Water. In the regulatory accounts, the investment figure and compensating inter-company creditor of £16.6m have been netted to provide suitable comparisons with the previous year and consistency with the approach agreed with Ofwat.

Revenue recognition

There is no difference between the turnover recognised in the statutory and regulatory accounts or in the policy for revenue recognition.

No turnover is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant turnover is cancelled. Generally a property is classed as void if it is unoccupied and unfurnished.

Turnover is only recognised when the occupier's name is known. This policy applies to both existing and new properties. All billing is then subsequently classed as turnover.

2. APPOINTED AND NON-APPOINTED BUSINESS

The historical cost accounting information shows separate figures for Appointed and Non-appointed Business.

Notes to the Regulatory Accounting Information

The Appointed Business is defined to be the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The Non-appointed Business encompasses those activities for which Yorkshire Water is not a monopoly supplier or the activity involves the optional use of an asset owned by the Appointed Business.

3. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the Appointed Business are separately allocated and identified as 'Non-Appointed'. Indirect costs, relating to non-appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Borrowings or sums lent

Kelda Holdco Ltd

During the year index linked swaps originally held by Saltaire Water Ltd were novated to Yorkshire Water. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value. At the date of the novation the fair value of the swaps was £308.9m 'out of the money' and this resulted in an inter-company loan of this amount and a corresponding provision in the balance sheet of Yorkshire Water. The loan, which was arranged following Ofwat approval, was subsequently transferred from Saltaire Water Ltd and is now loaned to Kelda Holdco Ltd. The loan is being repaid over a 38 year period (the life of the swaps) and is subject to the payment of interest at current market rates. The provision is also being amortised over this period.

A short-term loan of £21.3m was received from Kelda Holdco Ltd on 31 March 2009 which is repayable on demand and subject to the payment of interest at current market rates.

Kelda

On 31 March 2000 £200m was lent by the parent company, Kelda Group Ltd, at a fixed rate of 6.875%, repayable in 2010, on 17 April 2000 a further £150m was lent at a fixed rate of 6.625% repayable in 2031, and on 16 November 2001 a further £90m was lent at 6.625% repayable in 2031. On 3 July 2008 Yorkshire Water Services Finance Ltd (YWSF), a subsidiary of the company, became principal debtor under the bonds which are unconditionally and irrevocably guaranteed by Yorkshire Water. As a result, the loans from Kelda Group Ltd were transferred to YWSF.

Short-term loans of £24.0m from Kelda Group Ltd outstanding at 31 March 2008, on which interest was payable at 3 month LIBOR rates, were repaid during the year.

Notes to the Regulatory Accounting Information

Yorkshire Water Services Finance Ltd

The following amounts were lent by YWSF:-

<i>Issue date</i>	<i>Rate</i>	<i>Maturity</i>	<i>Liability at 31 March 2009 £m</i>
	<i>%</i>		
Fixed rate			
23/4/98	6.875	2010	199.8
07/04/00	6.625	2031	240.3
21/2/03	5.375	2023	196.6
29/5/07	5.125	2037	194.6
29/05/07	5.5	2027	148.7
Total fixed:			980.0
Index linked			
21/2/03	3.048	2033	121.8
27/11/06	1.462	2051	131.5
27/11/06	1.460	2056	131.4
1/6/07	1.75756	2054	86.8
11/6/07	1.7085	2058	102.0
11/6/07	1.8225	2050	66.3
Total index linked:			639.8
Total loan with YWSF			1,619.8

No other material sums were lent to or borrowed from other associated companies.

Dividends paid to associated undertakings

Amounts paid to the parent company, Kelda, and the underlying dividend policy, are disclosed in the Directors' Report on page 14 of the statutory financial statements of Yorkshire Water.

Guarantees/securities

Until August 2008, the bankers for the Kelda group current accounts provided pooling arrangements for all accounts whereby debit and credit balances were pooled with interest charged on the net group balance. Arrangements changed on 11 August 2008 and now Yorkshire Water has pooling arrangements only with YWSF and Kelda. Debit and credit balances are pooled with interest charged on the net group balance.

This facility is subject to provision of cross guarantees by each company within each pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank. This is provided that the aggregate of the cleared debit balances, less the aggregate of the cleared credit balances, i.e. the net amount must not exceed £10m. In addition, the aggregate of the cleared debit balances on the group accounts must not exceed £15m.

Transfer of assets and liabilities

During the course of the year land and buildings were sold to group companies at market value. Total sale proceeds were £1.5m (2008: £9.9m).

Supply of service

Details of services supplied to the Appointee by associates during the year are disclosed overleaf where these exceed a materiality level of £1m (in line with RAG 5.04 requirements). No services of a material value were provided by the Appointee to associates.

Notes to the Regulatory Accounting Information

Service	Associate Company	Turnover of Associate £m	Terms of Supply	Value £m
Corporate charges	Kelda	4.2	Cost allocation	3.1
Customer Services	Loop Customer Management	20.3	Cost allocation	18.4

The Directors declare that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

4. **LINK BETWEEN DIRECTORS' PAY AND STANDARDS OF PERFORMANCE**

The remuneration policy of the company, which is set within the context of the group's remuneration policy, is to enable directors to receive remuneration which is competitive in the market and which encourages and enables upper quartile performance, taking into account individual performance, responsibilities and experience. Accordingly, the remuneration of the directors of the company is structured into three elements: base salary, annual incentive and long term incentive plan (LTIP).

Salary

The base salary is a fixed figure and does not vary in relation to business or individual performance.

Annual incentive plan

Under the annual incentive plan, each director has the opportunity to earn an annual incentive award based on a percentage of their salary. Awards are entirely performance related as described below.

Early in the 2008/09 financial year, the company implemented a new annual incentive plan based on company performance and personal contribution. Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March 2008 as follows:

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal / individual objectives set at the start of the financial year.
- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the company's Vision to be clearly the best water company in the UK. The same corporate objectives were shared by all directors. These are set out in the table overleaf with the percentage payable:-

Notes to the Regulatory Accounting Information

Vision chapter	Measure	% of corporate bonus
Value+	Financial performance	0 (15% max)
Service+	Customer satisfaction	7.5 (10% max)
Compliance+	Water quality (mean zonal compliance) and WWTW compliance with numeric sanitary consent	9 (10% max)
People+	Employee motivation	4 (5% max)
Partners	Contractor performance and health and safety performance	3.5 (5% max)
Society	Media tracking and volunteering	4.5 (5% max)

Using these principles the awards for 2008/09 were determined by the group remuneration committee (the Committee) and taking account of performance against these measures and personal/individual objectives, total awards were made by the Committee in accordance with the table below.

	Max. Bonus	Bonus for 2008/09	Bonus for 2008/09
	%	%	£
J. J. Allan	70	48	62,400
G. Dixon	70	46	69,000
R. D. Flint	70	50	100,000
A. Harrison	70	48	72,000
J. Hodgkin	70	39	58,500

These payments were approved by the Committee on 26 March 2009 and were paid in June 2009.

The Committee will be reviewing the above scheme early in the 2009/10 financial year before confirming the basis upon which awards will be made at the end of that financial year.

Kevin Whiteman and Allison Bainbridge are executive directors of Kelda Holdco Ltd and their emoluments are shown in the accounts of that company.

Long term incentive plan

The first conditional award under a revised Kelda group LTIP, which included a link to the company's performance against Ofwat comparative efficiency measures, was made on 27 September 2007. Vesting of shares awarded under this Plan was triggered by the acquisition of Kelda by Saltaire Water Ltd in February 2008 and the Plan was then closed. Details of the vesting of these shares were given in the regulatory accounts for 2007/08.

Following the acquisition of the Kelda group the Committee conducted a review of the group's executive incentive arrangements for executive directors. A revised cash

Notes to the Regulatory Accounting Information

LTIP was developed and established during the year under which the first conditional awards were granted in November 2008.

The Plan provides for a cash award based on a percentage of salary. The awards granted in November 2008 are subject to 2 performance conditions which are measured over a 3 year period.

70% of the award is subject to the valuation of the investment made by the investors in Kelda at the end of the relevant 3 year performance period as determined by an independent valuer.

The remaining 30% of the award was based on the company's Operating Efficiency and Capital Maintenance Efficiency performance relative to the other 9 water and sewerage companies based on Ofwat published data. Ofwat's report on 'Water and Sewerage Service Unit Costs and Relative Efficiency' (the Ofwat Report) was to be used to produce an average ranking for the company for the financial year for the 4 operating and capital efficiency measures.

The Ofwat Report contains Ofwat's assessment of each water company's operating and capital maintenance efficiency for water and, in respect of the water and sewerage companies, the same efficiency measures in respect of sewerage. These assessments are based primarily on Ofwat's econometric models and unit cost comparisons.

Based on these assessments, the Ofwat Report contains a ranking amongst the companies based on their relative performance for each of the four measures (Operating Efficiency – Water; Capital Maintenance Efficiency – Water; Operating Efficiency – Sewerage; Capital Maintenance Efficiency – Sewerage). For the purposes of this performance condition, the water only companies are ignored from the analysis as they do not feature in the sewerage measures, leaving the 10 water and sewerage companies as the comparator group.

This process of producing an average ranking would be repeated for the next two years in the performance period to establish an average for the 3 years. On the basis of this overall average, a ranking is established (with the company having the lowest overall average being ranked 1st and so on).

Vesting of 30% of the award was to be in accordance with the table below;

OFWAT Ranking:	Percentage of Award Vesting (for 30% of the Award):
1	100%
2	100%
3 - 5	Pro rata between 0% and 100%
6 and below	0%

However, since the awards were granted Ofwat have ceased to report on Capital Maintenance Efficiency – Water and Capital Maintenance Efficiency – Sewerage, and therefore these measures have since become obsolete.

As a result the Committee met in May 2009 and varied the performance condition for the 2008 awards to replace the Capital Maintenance measures with a performance condition that measures performance against the phased capital efficiency target for

Notes to the Regulatory Accounting Information

the relevant award year and calculates a cumulative efficiency performance over a three year period (the "Capital Efficiency Measure").

As a result of these changes vesting of 30% of the award shall be in accordance with the tables below;

OFWAT Ranking:	Percentage of Award Vesting (for 15% of the Award):
1	100%
2	100%
3 - 5	Pro rata between 0% and 100%
6 and below	0%

Capital Efficiency Measure	Percentage of Award Vesting (for 15% of the Award):
100%	100%
At least 75% but below 100%	Pro rata between 0% and 100%
Below 75%	0%

No awards will vest under the Plan unless, in the opinion of the Committee, the underlying financial performance of the company has been satisfactory over the performance period, taking into account all relevant circumstances. The Committee has the power to scale back vesting to any extent considered appropriate in light of the company's financial performance.

As no LTIP was in place that resulted in vesting in 2008/09 no payments were received by the directors during the year under an LTIP.

Notes to the Regulatory Accounting Information

5. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 2009

	2009			2008		
	Water	Sewerage	Total	Water	Sewerage	Total
	services	services	appointed	services	services	appointed
	£m	£m	business	£m	£m	business
			£m			£m
Turnover						
Unmeasured	201.0	231.3	432.3	193.0	218.1	411.1
Measured	163.9	159.4	323.3	155.3	144.5	299.8
Trade effluent	24.8	8.2	33.0	-	8.1	8.1
Large user and special agreement	-	28.0	28.0	24.4	29.3	53.7
Rechargeable works	8.8	0.1	8.9	9.3	-	9.3
Bulk supplies/inter company	0.1	-	0.1	-	-	-
Other sources	0.8	1.8	2.6	0.7	2.2	2.9
Total turnover	399.4	428.8	828.2	382.7	402.2	784.9
Operating income						
Current cost profit on fixed assets net of expenses	1.0	1.0	2.0	3.1	28.2	31.3
Total operating income	1.0	1.0	2.0	3.1	28.2	31.3
Working capital adjustment	-	(0.1)	(0.1)	0.7	0.7	1.4

6. ANALYSIS OF OPERATING COSTS AND ASSETS

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Notes to the Regulatory Accounting Information

6. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2009

	Resources		Water supply	Sewerage	Sewage treatment	Sludge Treatment & disposal	Sewerage services
	& treatment	Distribution	sub total	Sewerage	treatment	& disposal	sub total
	£m	£m	£m	£m	£m	£m	£m
DIRECT COSTS							
Employment costs	4.2	6.5	10.7	3.5	6.7	3.1	13.3
Power	18.2	6.1	24.3	3.3	21.1	5.8	30.2
Agencies	-	-	-	-	-	-	-
Hired and contracted services	4.8	12.5	17.3	7.8	10.4	8.3	26.5
Associated companies	0.1	0.1	0.2	-	0.1	-	0.1
Materials and consumables	8.1	0.2	8.3	0.1	0.9	3.2	4.2
Service charges	5.8	-	5.8	1.2	3.2	0.2	4.6
Bulk supply imports	3.2	-	3.2	-	-	-	-
Other direct costs	1.2	2.1	3.3	0.6	0.8	0.2	1.6
Total direct costs	45.6	27.5	73.1	16.5	43.2	20.8	80.5
General and support expenditure	11.9	11.7	23.6	6.1	14.4	5.0	25.5
Functional expenditure	57.5	39.2	96.7	22.6	57.6	25.8	106.0
BUSINESS ACTIVITIES							
Customer services			10.8				11.4
Scientific services			5.6				2.3
Other business activities			2.2				2.1
Business activities sub-total			18.6				15.8
Local authority rates			22.5				12.2
Doubtful debts			5.9				6.2
Exceptional items			5.3				5.9
Total opex less third party services			149.0				146.1
Third party services - opex			8.8				0.2
Total operating expenditure			157.8				146.3
CAPITAL MAINTENANCE							
Infrastructure renewals charge	10.0	26.3	36.3	17.0	-	-	17.0
Current cost depreciation							
- service activities	57.1	20.5	77.6	14.4	82.1	17.8	114.3
- business activities			0.2				0.2
Amortisation of grants			(1.4)				(1.4)
Amortisation of intangible assets			1.0				-
Total capital maintenance			113.7				130.1
TOTAL OPERATING COSTS			271.5				276.4
CCA NET MEA VALUES							
Service activities	4,266.2	5,114.7	9,380.9	12,453.6	1,684.5	194.4	14,332.5
Business activities			4.6				4.6
TOTAL			9,385.5				14,337.1

Notes to the Regulatory Accounting Information

7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2008

	Resources		Water supply	Sewerage	Sewage treatment	Sludge treatment & disposal	Sewerage services
	& treatment	Distribution	sub total	treatment			sub total
	£m	£m	£m	£m	£m	£m	£m
DIRECT COSTS							
Employment costs	4.6	6.6	11.2	3.5	7.0	2.7	13.2
Power	12.0	4.9	16.9	2.6	13.6	4.2	20.4
Agencies	-	-	-	-	-	-	-
Hired and contracted services	4.5	13.2	17.7	7.1	10.1	9.6	26.8
Associated companies	0.1	-	0.1	-	0.1	0.1	0.2
Materials and consumables	6.2	0.2	6.4	0.1	1.3	2.6	4.0
Service charges	5.7	-	5.7	1.3	3.0	0.2	4.5
Bulk supply imports	3.1	-	3.1	-	-	-	-
Other direct costs	0.7	1.2	1.9	0.6	0.6	0.5	1.7
Total direct costs	36.9	26.1	63.0	15.2	35.7	19.9	70.8
General and support expenditure	10.7	14.9	25.6	5.9	12.6	5.4	23.9
Functional expenditure	47.6	41.0	88.6	21.1	48.3	25.3	94.7
BUSINESS ACTIVITIES							
Customer services			11.7				10.5
Scientific services			6.1				2.2
Other business activities			2.3				1.7
Business activities sub-total			20.1				14.4
Local authority rates			21.6				13.5
Doubtful debts			4.1				4.3
Exceptional items			5.3				1.7
Total opex less third party services			139.7				128.6
Third party services - opex			9.3				-
Total operating expenditure			149.0				128.6
CAPITAL MAINTENANCE							
Infrastructure renewals charge	7.2	22.1	29.3	21.6	-	-	21.6
Current cost depreciation							
- service activities	58.3	19.7	78.0	12.5	82.1	19.1	113.7
- business activities			0.2				0.2
Amortisation of grants			(1.4)				(1.4)
Amortisation of intangible assets			0.9				-
Total capital maintenance			107.0				134.1
TOTAL OPERATING COSTS			256.0				262.7
CCA NET MEA VALUES							
Service activities	4,295.0	5,090.9	9,385.9	12,485.2	1,625.5	203.5	14,314.2
Business activities			3.5				3.6
TOTAL			9,389.4				14,317.8

Notes to the Regulatory Accounting Information

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 2009

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Gross replacement cost					
At 1 April 2008	2,192.5	22.4	8,125.9	311.9	10,652.7
RPI adjustment	(8.7)	(0.1)	(32.5)	(1.3)	(42.6)
Disposals	(2.0)	-	-	(1.6)	(3.6)
Additions	55.0	0.6	35.8	20.1	111.5
At 31 March 2009	2,236.8	22.9	8,129.2	329.1	10,718.0
Depreciation					
At 1 April 2008	1,062.7	7.2	-	193.4	1,263.3
RPI adjustment	(4.3)	-	-	(0.8)	(5.1)
Disposals	(2.0)	(0.1)	-	(1.5)	(3.6)
Charge for year	49.7	0.1	-	28.1	77.9
At 31 March 2009	1,106.1	7.2	-	219.2	1,332.5
Net book amount at 31 March 2009	1,130.7	15.7	8,129.2	109.9	9,385.5
Net book amount at 1 April 2008	1,129.8	15.2	8,125.9	118.5	9,389.4
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 2008	3,855.7	55.5	12,261.4	297.5	16,470.1
RPI adjustment	(15.4)	(0.2)	(49.1)	(1.2)	(65.9)
Disposals	(22.5)	(0.1)	-	(1.2)	(23.8)
Additions	154.5	2.2	14.4	20.1	191.2
At 31 March 2009	3,972.3	57.4	12,226.7	315.2	16,571.6
Depreciation					
At 1 April 2008	1,954.5	23.0	-	174.8	2,152.3
RPI adjustment	(7.8)	(0.1)	-	(0.7)	(8.6)
Disposals	(22.4)	-	-	(1.2)	(23.6)
Charge for year	86.7	0.6	-	27.1	114.4
At 31 March 2009	2,011.0	23.5	-	200.0	2,234.5
Net book amount at 31 March 2009	1,961.3	33.9	12,226.7	115.2	14,337.1
Net book amount at 1 April 2008	1,901.2	32.5	12,261.4	122.7	14,317.8

Notes to the Regulatory Accounting Information

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2009

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
TOTAL					
Gross replacement cost					
At 1 April 2008	6,048.2	77.9	20,387.3	609.4	27,122.8
RPI adjustment	(24.1)	(0.3)	(81.6)	(2.5)	(108.5)
Disposals	(24.5)	(0.1)	-	(2.8)	(27.4)
Additions	209.5	2.8	50.2	40.2	302.7
At 31 March 2009	6,209.1	80.3	20,355.9	644.3	27,289.6
Depreciation					
At 1 April 2008	3,017.2	30.2	-	368.2	3,415.6
RPI adjustment	(12.1)	(0.1)	-	(1.5)	(13.7)
Disposals	(24.4)	(0.1)	-	(2.7)	(27.2)
Charge for year	136.4	0.7	-	55.2	192.3
At 31 March 2009	3,117.1	30.7	-	419.2	3,567.0
Net book amount at 31 March 2009	3,092.0	49.6	20,355.9	225.1	23,722.6
Net book amount at 1 April 2008	3,031.0	47.7	20,387.3	241.2	23,707.2

Notes to the Regulatory Accounting Information

9. WORKING CAPITAL

	2009	2008
	£m	£m
Stocks	0.8	0.7
Trade debtors – measured household	22.5	19.3
- unmeasured household	27.5	24.2
- measured non-household	16.3	16.8
- unmeasured non-household	0.4	0.3
- other	5.5	3.2
Measured income accrual	48.8	45.7
Prepayments and other debtors	16.8	21.4
Trade creditors	(40.8)	(52.9)
Deferred income – customer advance receipts	(51.8)	(57.4)
Capital creditors	(61.2)	(44.3)
Accruals and other creditors	(13.9)	(6.3)
	<u>(29.1)</u>	<u>(29.3)</u>

10. MOVEMENT ON CURRENT COST RESERVE

	2009	2008
	£m	£m
Balance at 1 April	19,867.2	19,117.9
RPI adjustments		
Fixed assets	(94.8)	863.5
Working capital	0.1	(1.4)
Financing	10.9	(98.7)
Grants & third party contributions	1.5	(14.1)
	<u>19,784.9</u>	<u>19,867.2</u>
Balance at 31 March	19,784.9	19,867.2

Notes to the Regulatory Accounting Information

11. RECONCILIATION OF APPOINTED BUSINESS OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2009 £m	2008 £m
Current cost operating profit	282.2	298.9
Working capital adjustment	0.1	(1.4)
Movement in working capital	(17.1)	5.1
Receipts from other income	2.2	2.2
Current cost depreciation	190.5	190.2
Current cost profit on sale of fixed assets	(2.0)	(31.3)
Infrastructure renewals charge	53.3	50.9
Other non-cash profit and loss items	(6.8)	2.6
Net cash flow from operating activities	502.4	517.2

12. NET DEBT ANALYSIS

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Maturity profile				
Less than one year	29.0	26.5	-	55.5
Between one and two years	231.2	2.0	-	233.2
Between two and five years	142.0	452.1	-	594.1
Between five and twenty years	804.2	30.0	-	834.2
In more than twenty years	456.7	27.2	659.5	1,143.4
	1,663.1	537.8	659.5	2,860.4
Cash				(18.4)
Adjusted net debt at 31 March 2009				2,842.0
Short term deposits				(12.2)
Investment – loan to a group company				(296.7)
Total net debt at 31 March 2009				2,533.1

Short term deposits and investment – loan to a group company relate to the non-cash loan to Kelda Holdco Ltd described in Note 3 to the Regulatory Accounts on page 56.

Notes to the Regulatory Accounting Information

13. RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS

for the year ended 31 March 2009

	Statutory UK GAAP £m	Regulatory £m	
Profit and loss account			
Operating profit	343.1	340.9	Rental income of £2.2m classified as other income in regulatory accounts
Profit before tax	266.4	266.4	Profit before tax is unaffected by this classification
Balance Sheet			
Tangible fixed assets (net book value)	4,224.5	4,241.5	FRS 15 adopted in statutory accounts does not permit infrastructure renewals accounting as required by Ofwat. The accrual of £17.0m is therefore netted off fixed assets.
Infrastructure renewals accrual	-	(17.0)	
Investments/intangible assets	26.1	9.5	The investment in York Waterworks of £16.6m is eliminated in regulatory accounts with a compensating entry in creditors.
Deferred income— grants/contributions	-	(78.6)	In the statutory accounts deferred income is included within: <ul style="list-style-type: none"> - creditors due within one year £3.0m - creditors due after more than one year £75.6m
Investment - loan to a group company	-	12.2	Internal loan to a group company included within debtors in statutory accounts.
- short term deposits	-	296.7	
Borrowings - due within one year	(31.6)	(52.9)	Internal loans are classified within borrowings in the regulatory accounts but as creditors in the statutory accounts. This includes £21.3m due within one year and £1,619.8m due after one year. Overdrafts are also contained within short term borrowings in the statutory accounts.
- due after more than one year	(1,185.1)	(2,804.9)	
Overdrafts	-	-	
Corporation tax payable	-	(40.2)	Corporation tax payable of £40.2m is included within creditors in statutory accounts but is itemised separately in regulatory accounts.
Debtors	469.1	160.2	Internal loans to group company included within investment & short term deposits in regulatory accounts.
Creditors – due within one year	(318.8)	(237.7)	The items described and itemised above are included elsewhere in the regulatory accounts.
- due after more than one year	(1,757.9)	(62.5)	

Notes to the Regulatory Accounting Information

14. REGULATORY CAPITAL VALUES AT 2008/09 PRICES

		2009 £m
Opening regulatory capital value for the year	*	4,229
Capital expenditure (excluding IRE)	*	309
Infrastructure renewals expenditure		51
Infrastructure renewals charge		(41)
Grants and contributions		(14)
Depreciation		(183)
Outperformance of regulatory assumptions (5 years in arrears)		(29)
Closing regulatory capital value	*	4,322
Average regulatory capital value		4,347

- * The table shows the regulatory capital value used in setting the price limits for the period 2008/09 to 2009/10 as published by Ofwat in April 2005, inflated to March 2009 prices, with the exception of the average RCV, which is shown at average prices. The differences from the actual capital expenditure, depreciation, etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

Regulatory Operating and Financial Review

INTRODUCTION

The requirements of the Regulatory Operating and Financial Review are set out in this section and, where noted by cross reference below, in the Business Review and Directors' Report that accompany the statutory financial statements of Yorkshire Water.

The Business Review on page 1 of the statutory financial statements of Yorkshire Water contains a description of the business, its strategy and review of financial and operational performance in the year, together with key performance indicators, based on the statutory accounts. It also sets out forward-looking statements and the principal risks and uncertainties facing the business.

This review contains additional information and disclosures on regulatory financial information.

The Directors' Report on page 13 of the statutory financial statements of Yorkshire Water sets out the principal activities of the company, subsequent events and company's policy in respect of employees, employment practices, environment and community matters.

The Regulatory Operating and Financial Review in the Regulatory Accounts is required by Ofwat. The contents, including the cross-referencing to the statutory financial statements where appropriate, have been prepared following the Accounting Standards Board's Reporting Statement, as supplemented by additional Ofwat requirements.

FINANCIAL PERFORMANCE

Key financial performance indicators

	2009	2008
Operating profit	£338.8m	£354.6m
Cash interest cover	3.9x	3.6x
Adjusted net debt to Regulatory Capital Value (RCV)	65.8%	60.4%

Historical cost profit before tax has increased by £52.1m to £264.3m and operating profit has reduced by £15.8m to £338.8m since 2007/08, after charging exceptional costs of £11.2m which are described in more detail below. 2007/08 figures included exceptional costs of £7.0m and an exceptional profit on sale of fixed assets of £17.5m, within operating income. Excluding the impact of these exceptional items, profit before tax has increased by £73.7m, and operating profit has increased by £5.9m.

Total regulated turnover for 2008/09 amounted to £828.2m, an increase of £43.3m (5.5%) over the 2007/08 total of £784.9m. Main charges of £816.6m increased by 5.7% (£44.0m) over the previous year, primarily as a result of the price increase of 8.2%, offset by the decline in demand for water from measured domestic and business customers in the current economic climate. Domestic meter options also continue to have an adverse impact on income. Income is £26.7m (3.1%) below the level forecast in Ofwat's final determination for PR04 due to these factors, offset by higher trade effluent income and increases from other miscellaneous income.

Operating costs have increased by £29.0m to £357.5m, which comprises regulated operating costs of £293.0m, an infrastructure renewals charge of £53.3m and exceptional costs of £11.2m. Regulated operating costs have increased by £22.4m (8.3%) from the 2007/08 figure of £270.6m (excluding the £7.0m of exceptional costs in that year). The price of certain commodities, such as energy and chemicals, rose well above the level of general inflation (which averaged at 3.0% over the year), and the level of bad debts charge was impacted by the economic climate. These increases have been offset by the continuing delivery of efficiencies.

Regulatory Operating and Financial Review

The infrastructure renewals charge increased by £2.4m and reflects the anticipated capital expenditure over the period to 2010. Depreciation increased by £4.3m, reflecting an increase in base depreciation and an impairment charge of £3.2m relating to the revaluation of non-specialised buildings. These were offset by a charge in 2007/08 of £6.0m relating to the write-off of assets no longer in use at Knostrop.

Net interest payable of £76.7m was £67.9m lower than the charge of £144.6m in 2007/08 due mainly to net interest receivable of £60.4m on index linked swaps which were transferred to Yorkshire Water as part of the restructuring of debt following the acquisition of Kelda. Adjusted net debt, as described in Note 12 on page 68, increased by £277.7m to £2,842.0m, with a corresponding increase in adjusted net debt to RCV to 65.8% (2008: 60.4%).

The current year tax charge of £69.6m is £17.4m higher than in 2007/08, mainly as a result of higher taxable profits. The deferred tax provision increased by £44.1m to £234.9m, resulting in a charge of this amount, compared to a £10.8m credit in 2007/08. This is due to the gilt rates which affect the discount.

Atypical items

Exceptional costs of £11.2m were incurred in 2008/09 in respect of the whole business securitisation of Yorkshire Water and its subsidiary companies, which will provide a permanent and stable platform from which the long term financing can be secured. These costs will not be borne by customers. Exceptional costs of £7.0m in 2007/08 include £4.7m of additional restructuring costs and £2.3m of payments made to employees following the termination of their Long Term Incentive plans.

2008/09 costs include £0.8m of atypical restructuring costs, compared with £0.9m in 2007/08. Other atypical costs in 2008/09 included costs associated with extreme weather (£0.6m) and atypical bad debt write-offs (£1.3m), offset by credits relating to previous years' atypical items for mesothelioma claims (£0.9m) and flash floods (£0.1m). Atypical costs in 2007/08 included £0.8m relating to a fire at an incinerator, £0.3m in dealing with an unprecedented level of flies at a waste water treatment works (2009: £0.1m) and a further £0.2m due to theft and vandalism at operational sites (2009: £0.2m). Refunds of Local Authority rates, following successful rating appeals, and related accruals amounted to £0.1m in the year (2008: £0.4m).

Operating income in 2007/08 included an exceptional profit of £17.5m on the disposal of fixed assets resulting from proceeds of £33.0m received from insurers to replace assets damaged by the floods of Summer 2007. This was offset by the write-off of net book values of £15.5m relating to the assets destroyed.

Donations to charitable trusts

No donations were made by the company to the Community Trust which assists customers with payment difficulties, but £0.6m was donated by the parent company, Kelda.

Dividends

The dividend for the year of £311.6m includes interim dividends of £131.5m paid during 2008/09 and a special dividend a £180.1m paid in August 2008 in relation to the drawdown of debt by Yorkshire Water which had been incurred by Saltaire Water Ltd at the time of acquisition of Kelda. These compare with a total dividend reported in 2007/08 of £111.2m, which included a final dividend of £82.0m in respect of 2006/07 and an interim dividend of £29.2m for 2007/08.

Cautionary statement

The purpose of this annual report is to provide information to members of the company and contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this report should be construed as a profit forecast.

Directors' Responsibilities

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Act 1991 for:

- a) ensuring that proper accounting records are kept by the Appointee as required by paragraph 3 of Condition F of the Instrument and having regard to the terms of any guidelines notified from time to time by Ofwat;
- b) preparing on a consistent basis in respect of each financial year accounting statements in agreement with the Appointee's accounting records and in accordance with the requirements of Condition F and any guidelines notified from time to time by Ofwat to the Appointee. So far as reasonably practicable these should have the same content as the annual accounts of the Appointee prepared under the Companies Act 1985 Act and be prepared in accordance with the formats and the accounting policies and principles which apply to those accounts;
- c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued to the Appointee from time to time.

DISCLOSURE OF INFORMATION TO THE AUDITORS

As stated in the Directors' Report on page 21 of the statutory financial statements of Yorkshire Water, as far as each director is aware there is no relevant audit information of which the company's auditors are unaware and each director has taken such steps as he or she should have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditor is aware of the information.

Other Regulatory Declarations

RING FENCING

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

DIRECTORS' CERTIFICATE – CONDITION F

The Directors declare that, in their opinion:-

- i) the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and
- ii) the company will, for at least the next 12 months, have available to it:
 - a) management resources; and
 - b) systems of planning and internal control

which are sufficient to enable it to carry out those functions.

In making this declaration, the Directors have taken into account:-

- a) the net worth of the company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2009 and the company's business plan for 2009/10;
- b) borrowing facilities which include significant committed undrawn bank facilities;
- c) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due;
- d) the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners.
- e) the company's employment policies and strategy as described in detail in the Directors' Report on pages 16 and 17 of the statutory financial statements of Yorkshire Water.

The Directors also declare that in their opinion all contracts entered into with any Associated Company, include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

Independent Auditors' Report on the Regulatory Accounting Information

Independent Auditors' report to the Water Services Regulation Authority and Directors of Yorkshire Water Services Limited

We have audited the Regulatory Accounts of Yorkshire Water Services Limited ("the Company") on pages 48 to 74 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical reconciliation between the statutory financial statements and the Regulatory Accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority ("the WSRA") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts as the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the WSRA, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 73.

Independent Auditors' Report on the Regulatory Accounting Information

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion" below and having regard to the guidance contained in Audit 05/03 *"Reporting to Regulators of Regulated Entities"*.

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 51 to 53 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the operating and financial review, the notes on regulatory information, and the additional information required by the Company's Regulatory Licence.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no

Independent Auditors' Report on the Regulatory Accounting Information

other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 48 and 50 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 69.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2009 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 54 to 56, the state of the Company's affairs at 31 March 2009 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information we report that in our opinion:

- a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA;
- c) the regulatory historical cost accounting statements on pages 48 to 50 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA;
- d) the regulatory current cost accounting statements on pages 51 to 53 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

24 June 2009

Independent Auditors' Report on the Regulatory Accounting Information

- 1. The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.*
- 2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.*