

**Kelda Group Limited (formerly Kelda Group plc)
Annual report and accounts for the year ended
31 March 2008**

Company number: 02366627

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Our business

Kelda Group Limited (Kelda) continues to perform well across a range of businesses

Yorkshire Water

Yorkshire Water Services Limited (Yorkshire Water) is the principal UK subsidiary of 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

- To be clearly the best water company in the UK
- Focus on striking the right balance between service, compliance, value, people, partners and society

UK Service Operations

Kelda Water Services

Kelda Water Services Limited (KWS) is a major player in the UK water and waste water contract operations market, with operations in England, Scotland, Wales and Northern Ireland.

Business strategy

- To be the best in UK water contract operations
- Maximise value from existing operations
- Be alert to potential growth opportunities

Loop

Loop Customer Management Limited (Loop) specialises in cost effective customer relationship management. The company's main contract is to provide customer service support to Yorkshire Water.

Safe-Move

Safe-Move is a non-regulated business which provides search information to solicitors and conveyancers including information covering drainage and water services.

KeyLand

KeyLand Developments Limited (KeyLand) is responsible for managing, developing and disposing of the group's surplus property assets, either on its own or in partnership with outside organisations. The results of KeyLand include the group's share of its associates and joint ventures.

Business strategy

- To maximise the value of the group's surplus property portfolio

Our strategy

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 across the group and employing world-class technology.

Our customers

Our aim is to provide a quality of service which is significantly better than any other utility or company and at a price which represents value for money. To achieve this we will design our service from the outside-in, 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

Kelda employs almost 3,400 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

Kelda deals with environmental issues as diverse as catchment management, sustainable water management and river and bathing water standards. Our performance affects all customers and everyone who lives in all of 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.

Service partners

Kelda 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.

Business review

Kelda

In February 2008, Kelda was acquired by a consortium of investment companies comprising Citigroup, GIC, Infracapital and HSBC. The consortium based its decision to acquire the group on Kelda's industry leading operational and service levels, and are committed to Kelda's vision to be clearly the best, maintaining momentum and progress achieved over recent years.

During the year, the group also completed its return of capital to shareholders, which is discussed further in the financial review, and completed the sale of its regulated US operations.

Yorkshire Water

Our strategy of continuing to focus on what we do best, providing high quality water and waste water services, has enabled us once again to deliver what we believe is sector leading financial and operational performance.

The summer floods of 2007 had a major impact, affecting many areas of the business, but the additional efforts of employees and our service partners enabled us to maintain services to customers and begin to reinstate damaged assets.

Key performance indicators

	Target	Current year	Previous year
Overall customer satisfaction	100%	86%	85%
Overall drinking water quality	99.975%	99.967%	99.965%
Waste water treatment works compliance	100%	99.51%	99.99%
Accidents			
- major and over 3 day accidents	15	28	35
- all accidents	75	150	180

Explanation of measures provided in the Key Performance Indicators glossary on pages 18 to 21

Value

In line with our aim to be clearly Ofwat's frontier company, we were once again awarded four 'A' ratings for the cost efficient way we run our water and waste water operations. We retained our position as the benchmark company for water operating expenditure and improved our performance by also becoming the benchmark for water capital expenditure.

The summer floods put significant pressure on both operating and capital costs in the year and resulted in a loss in revenue. However our insurance cover ensured that we recovered a substantial proportion of the funds needed to pay for the repairs and reinstate damaged assets.

Due to the continuing pressure of rising energy prices, energy management is increasingly important and we have been proactively driving a major programme of energy efficiency throughout our operations. This has the dual benefit of addressing our commitment to reduce carbon emissions to assist in mitigating the impact of climate change. We have also focused on increasing the amount of renewable energy we generate, with an aspiration of generating 10% of our energy needs in-house by 2010. During 2007/08, three new wind turbines have been commissioned at our Loftsome Bridge water treatment works and our waste water treatment works at Saltend, near Hull.

Customer service

For the third year running we have maintained our position in the top two of Ofwat's annual Overall Performance Assessment (OPA). We have now remained consistently in the top four water and sewerage companies over the past six years on this measure, the only company to achieve this.

As part of our Clear Water initiative, Yorkshire Water is driving innovation in customer service. This year has seen the use of platelet technology to repair leaks in a live environment and the installation of a live meter with no excavation or interruption to supply, both industry 'firsts'. These technologies will play a significant role in helping us to achieve our aspiration of zero interruptions to supply. In 2007/08 there was also a significant improvement in unplanned interruptions to supply and a continued downward trend in the number of properties suffering from low water pressure.

Our achievements in service this year have been recognised in the National Customer Service Awards where we won two accolades, the 'Utility Customer Service Team of the Year' and the 'Best Use of Technology in Customer Service' for the innovative use of mobile phone technology to detect problems in water pipes. We have also met the Government's Charter Mark standard for excellence in customer service again.

Customers are clearly benefiting from our focused approach to customer service, as we achieved our best ever score in Ofwat's customer satisfaction survey. Also, in November 2007, the Consumer Council for Water published their annual review of the industry for 2006/07 which showed that we have the lowest number of complaints per 10,000 customers in the industry, at 23 compared with an average of 80.

Environmental performance and compliance

The Drinking Water Inspectorate announced that the quality of Yorkshire's tap water remains high at 99.97% compliance and our leakage reduction programme and investment in specialised monitoring equipment have ensured that we have achieved Ofwat's leakage target for the tenth year running.

Our continued focus on the proactive maintenance and operation of our assets has resulted in a marked improvement in waste water related pollution incidents, with serious incidents reducing from 17 in 2006/07 to 3 in 2007/08. Better use of

telemetry and changed operating practices have allowed problems to be identified before they impact on customers or the environment. For example, 68% of combined sewer overflows are now fitted with real time monitoring equipment giving better visibility of asset performance and advanced warning of potential problems.

Despite the unprecedented rainfall in June and July 2007, our waste water treatment works on the East Coast coped well and the majority of the region's bathing waters met the Environment Agency's mandatory standards.

Significant progress continued towards achieving the target set by Natural England for improving the condition of Sites of Special Scientific Interest (SSSIs) on Yorkshire Water land, with 50.9% now in recovering status compared to 10% in 2003.

Social impact

It is now three years since the company's society vision was launched, including our clear commitment to supporting and enhancing the society we serve. Our community volunteering initiatives continued to make a real difference to the quality of lives in the region, with over 850 employees and service partners involved in community work during the past year.

Building on the success of our recent 'Cool Schools' campaign which tackled hydration issues, 2007/08 saw the launch of 'One Million Green Fingers', our biggest and most ambitious campaign to date. Yorkshire Water volunteers will create healthy and sustainable allotments and gardens in more than 350 primary schools across our region over the next three years, in line with our aspiration to become a national role model for volunteering.

We promoted awareness of our first land and recreation 'supersite' at the Washburn Valley, near Harrogate, and a survey of visitors showed that 82% were delighted with the improvements made to the facilities and signage.

We maintained platinum status in the Business in the Community's 'Top 100 Companies that Count 2007' report, published in partnership with the Sunday Times. This is the third year running that we have achieved the highest accolade for our overall impact on society, consistently scoring more than 95% against a range of social, ethical and environmental criteria.

Employees

It is testimony to the professionalism and dedication of our employees that we continued to maintain industry leading levels of service throughout 2007/08 despite the operational challenges posed by the floods.

As part of our ongoing drive to be clearly the best, the restructuring of two key parts of the business took place in 2007/08. The business unit dealing with waste water was renamed the 'Environmental Business' and restructured at the start of the year to bring all customer facing teams into one regional team. At the end of the year, the Water Business was reorganised to give improved focus on attaining

the operational improvements and efficiencies identified through our Clear Water initiative

Our Information Technology department was named as the UK's 'Best Place to Work in IT' by Computer Weekly magazine in recognition both of the positive way in which IT strategy is aligned with the company vision and the commitment to innovation and provision of a stimulating, enjoyable and productive workforce. Our approach to diversity was also recognised by the Personnel Today publication which awarded us its top annual accolade of the award for 'Diversity in the Workplace'

We continue to develop a culture of 'Think Safety First'. For the fifth consecutive year, we were awarded a Royal Society for the Prevention of Accidents Gold award for health and safety performance which reflects our achievements and approach to seek to continuously improve our health and safety performance although we recognise more needs to be done.

Partners

We continue to work with our service partners, including our extended supply chain, to deliver an improved service to customers and develop innovative solutions and processes. We have extended our use of information technology to key partners to enable a common platform.

To this end, we have undertaken a series of initiatives to promote innovation in the way we operate and maintain our assets, including integrated research and development activities which have, for example, undertaken trials of a more robust new gearbox that uses significantly less energy. In consultation with partners, we have also undertaken a number of initiatives to promote a stronger culture of health and safety issues across the supply chain.

In the aftermath of the summer flooding, our service partners played a significant supporting role in the emergency response and clean up operations. For example, during the first 24 hours, our repair and maintenance partner was required to attend almost 900 incidents, the equivalent of a normal week. Our electrical, maintenance and capital partners were also instrumental in helping to reinstate the assets affected.

UK Service Operations

UK Service Operations comprises Kelda Water Services (KWS), Loop and Safe-Move. Operating profit for the UK Service Operations group and its associated undertakings increased to £14.4m (2007: £10.7m), mainly reflecting the continuing strong operating performances of existing businesses.

Kelda Water Services

KWS is a leading UK water and waste water contract operations company. KWS continues to grow in its core markets, providing water and waste water operations and maintenance under long term contracts. In 2008, KWS had turnover of £169.5m (2007: £123.0m) and operating profits of £10.0m (2007: £8.5m).

KWS currently operates across the UK through its subsidiaries and associated undertakings:

- In Ireland, Dalriada Water Services, a 50% owned joint venture between KWS and Earth Tech, is near to completion of the construction of four water treatment plants ahead of schedule. These plants will provide 50% of Northern Ireland's water supply and are expected to be commissioned soon.
- Brey Utilities, another 50% joint venture between KWS and Earth Tech, completed its fifth year managing over 1,100 sites for the Ministry of Defence. During this time it has reduced leakage by 22%, down from 40% when it took over. During the year, the scope of the contract was once again increased with the addition of the Defence procurement agencies' headquarters at Abbeywood adding over six thousand new customers.
- KWS Wales, a 100% owned subsidiary, had another good year providing waste water operations and maintenance for Welsh Water (Dwr Cymru). During the year it installed 1.2 MW of combined heat and power engines which raised Dwr Cymru's renewable energy to 10% of its consumption. In 2008/09 it will support Dwr Cymru in its PR09 submission to Ofwat.
- In Scotland, Aberdeen Environmental Services, which is 45% owned by KWS, expanded the scope of its activities with Scottish Water by adding a £20m pipeline extension from the fishing village of Stonehaven to its main treatment plant at Nigg, ten miles away. Flows will commence in August 2008.

Loop

Loop specialises in cost effective customer relationship management. The company's main contract is to provide customer service support to Yorkshire Water. During the year, Loop enjoyed a succession of rising scores in the Ofwat Customer Satisfaction Survey, despite high levels of contacts during the summer flooding.

Safe-Move

Safe-Move is a non-regulated business which provides search information to solicitors and conveyancers, including information covering drainage and water services.

KeyLand Developments

Operating profit for KeyLand and its joint ventures increased by £1.0m to £5.3m for the year (2007: £4.3m). Revenue was significantly higher, at £39.8m (2007: £6.9m). This included the sale of land at Knostrop, which was sold to a joint venture of the company and is being developed in conjunction with Evans of Leeds, the joint venture partner. This project will contribute to the regeneration of this area, and management is confident of its potential to be successful.

The primary source of revenue for KeyLand continues to be from the disposal or development of brownfield sites. The timing of sales is impacted by the planning process.

Financial review

The group has had a successful year, with continued growth in revenue and operating profits. The group's financing was restructured during the year to increase the efficiency of the capital structure, mainly by way of the B share scheme in July 2007. In addition, the entire share capital of the group was purchased by Saltaire Water Limited in February 2008.

Key financial performance indicators

	2008	2007
Interest cover	2.9	3.5
Gearing	75.7%	63.2%
Group net debt to Regulatory Capital Value (RCV)	59.5%	48.0%

Explanation of measures provided in the Key Performance Indicators glossary on pages 18 to 21

Group operating profit from continuing operations

Group revenue from continuing operations excluding associates and joint ventures increased by 5.4% to £877.6m (2007 £832.6m). Of this, £785.0m (2007 £741.1m) related to UK regulated water services, which benefited from a 7.9% tariff increase in Yorkshire Water. Revenue from UK Service Operations, including associates and joint ventures, increased by £48.0m (3.7%) to £178.9m (2007 £130.9m).

UK regulated water services continued to provide the majority of the group's operating profit, with an increase from £332.7m in 2007 to £364.0m in 2008, an increase of 9.4%.

UK Service Operations recorded operating profit of £14.4m (2007 £10.7m), an increase of 35%. Much of this increase is generated by the Dalriada construction project in Northern Ireland.

KeyLand profitability increased by £1.0m to £5.3m (2007 £4.3m), due in part to the sale of land at Knostrop.

The 2007/08 results include net exceptional items of £20.4m. This includes £33.2m of costs incurred in respect of corporate transactions and £4.7m relating to restructuring costs. This is offset by an exceptional profit of £17.5m on the disposal of fixed assets relating to insurance proceeds received to reinstate flood damaged assets, the cost of which will appear within capital expenditure as incurred.

Overall, operating profit from continuing operations including exceptional items increased by 3.1% to £348.4m (2007 £338.0m).

Financing income and expense

The net interest expense has increased by 25% to £121.2m (2007 £97.0m) following the return of £750m of cash to shareholders during the year. This included an increase in the borrowings of the group and an associated rise in the group's interest expense.

Net interest expense includes a net credit of £9.8m (2007 £6.9m) in relation to pension fund assets and liabilities.

Taxation

The group's taxation charge of £37.8m (2007 £69.5m) comprises a charge of £59.5m (2007 £48.2m) for current tax and a credit of £21.7m (2007 charge of £21.3m) for deferred tax. The latter includes a credit of £41.9m for a recalculation of the group's deferred tax balance following the change of tax rate from 30% to 28% with effect from 1 April 2008.

Balance sheet

The return of capital to shareholders resulted in a reduction to shareholders' funds of approximately £750m, with a corresponding increase in borrowings. This has increased the group's balance sheet gearing from 59% to 76%.

Group net debt was £2,525.0m (2007 £2,104.3m). Cash generated by continuing operations was £508.6m (2007 £489.4m), which helped to cover capital payments of £385.3m (2007 £358.7m).

At the year end, the group held a pension surplus under IAS 19 of £27.3m (2007 £7.3m). The triennial actuarial valuation of the pension scheme as at 31 March 2007 has been completed. The funding deficit has decreased significantly from £107m in 2004 to £10m and it is planned to be eliminated over the five year period to March 2013. Whilst company pension contributions to eliminate the deficit are reduced, the future service cost has increased, leaving overall a modest reduction in company pension contributions from 1 April 2008.

Treasury policy

The group's 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 Kelda may be lent to group companies at commercial rates of interest. Cash surplus to operating requirements is on-lent to Kelda at commercial rates of interest and then 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.

Looking forward

Yorkshire Water

Keeping the right balance for all of Yorkshire Water's stakeholders is fundamental to achieving the company's vision of being clearly the best water company in the UK. The company's plans are therefore aligned with making progress in 6 key areas – service, compliance, value, people, partners and society

A great customer service

A key aspiration is to develop innovative thinking and employ new technologies to deliver an improved level of operational and customer service. By reducing the number of customer supply interruptions and the invasive nature of repair and maintenance work, the company will deliver better service for lower cost. By March 2009 we aim to have carried out 2,000 repairs using new, non-invasive technology

Environmental leadership

Real progress was made in 2007/08 in terms of minimising pollution incidents and enhancing waste water treatment works compliance, which we aim to emulate in 2008/09. Over the next year we are targeting our best ever performance in Ofwat's overall performance assessment, with a focus on eliminating serious pollution incidents altogether

Setting the pace for value

In 2008/09 the aim remains to outperform key financial targets and to be Ofwat's frontier company for efficiency

During 2008/09 we will deliver a £369m investment programme, with a further injection of £24m of capital efficiency to help meet the aspirations set out in our 25 year Strategic Direction Statement and Water Resource and Asset Management Plans

A great place to work

Health and safety will remain a key area of focus for 2008/09 with a continued push on 'Think Safety First' initiatives. We will be taking leadership to the next level with a senior management leadership development programme based around our Clear Leadership framework. There will also be more work on career planning and personal development, embedding a coaching culture amongst line managers

The bigger team

Successful service partners share Yorkshire Water's philosophy of improved service and lower costs. During 2008/09 there will be further sharing of IT platforms, innovation and accommodation. We will also roll out a new strategy for electrical and mechanical asset maintenance within our Environmental Business Unit to minimise asset and compliance failures

Making a difference in Yorkshire

In 2008/09 Yorkshire Water volunteers will be creating 100 healthy and sustainable school gardens as part of the company's new One Million Green Fingers campaign

Work will begin on the company's first ever environmental visitor centre at Esholt, near Bradford. We also plan to officially launch significant improvements to the recreational facilities at Langsett Reservoir in South Yorkshire

UK Service Operations*Kelda Water Services*

The KWS vision is to be the best in UK water contract operations and the company is totally focussed on providing the best in water and waste water solutions on behalf of its clients in England, Scotland, Northern Ireland and Wales

2008/09 will see the completion of new water treatment works and pipeline infrastructure for Water Services Northern Ireland, with the commencement of the operational part of the contract. The state-of-the-art treatment works will provide significant water quality benefits to people in Northern Ireland

KWS Wales will continue to work closely with Dwr Cymru in preparation for the new investment period

The company is also actively pursuing opportunities for further growth in the UK market for outsourced clean and waste water services

Loop

In 2008/09, Loop will continue to invest in people and build on its industry leading levels of customer services in its contact centre

KeyLand

In 2008/09, KeyLand will continue its successful partnership approach in order to maximise shareholder value from surplus Yorkshire Water assets

Principal risks

The group's risk management process aims to be comprehensive, systematic and continuous and based on constant monitoring of business risk. The board is also responsible for the group's internal control and for reviewing its effectiveness.

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

PR09 price review

In December 2007 Yorkshire Water submitted its 25 year Strategic Direction Statement to Ofwat, the first milestone in the 2009 price review process. Companies will submit and publish their draft business plans in August 2008, after which a period of consultation will follow.

Final business plans will be submitted in April 2009, with draft determinations published by Ofwat in July 2009 and final determinations in November 2009. New price limits will take effect in April 2010.

Water industry competition

In February 2008, the Government published its new water strategy for England, 'Future Water'. At the same time it announced an independent review of competition and innovation in the water industry, which is expected to be completed in Spring 2009, to be led by Professor Martin Cave, a former member of the Competition Commission and Ofwat's advisory board.

Review of metering policy

An independent review of water charging was also announced which will cover the role of metering and the potential to introduce mandatory metering in seriously water stressed areas where there is a clear case for doing so. Measures, such as tariffs, to help vulnerable customers would also be covered. Further details are expected to be announced shortly.

Changes in legislation

Water Framework Directive

The Water Framework Directive (WFD) is the most substantial piece of European water legislation to date. It requires all inland and coastal waters to reach 'good' status by 2015. It will do this by establishing a river basin district structure within which demanding environmental objectives will be set, including ecological targets for surface waters. The WFD therefore sets a framework which aims to provide substantial benefits for the long term sustainable management of water.

This new Directive has the potential to drive major additional capital investment and increases in customers' charges

Climate Change Bill

The Government's Climate Change Bill was introduced in Parliament in November 2007 and completed its passage through the House of Lords on 31 March 2008. It will then go to the House of Commons for consideration before receiving Royal Assent which is planned to happen by summer 2008.

The Bill creates a new approach to managing and responding to climate change by setting ambitious targets, taking powers to achieve them and establishing clear and regular accountability to Parliament.

For the first time, the Government is proposing to set clear and legally binding targets for reducing carbon dioxide emissions. In doing so, the Government is encouraging businesses to make significantly more efficient use of energy and invest more in low carbon fuels and technologies, such as carbon capture and storage, wind, wave and solar power.

As some aspects of the water and sewage treatment process can be relatively energy intensive, this legislation has the potential to impact on the company's energy strategies and operating costs.

Climatic changes

The company'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. This was evidenced by the widespread flooding which affected the Yorkshire region and many of the company's assets in Summer 2007.

As the company's resources are a mixture of water captured in reservoirs or abstracted from rivers or underground aquifers, climate change could alter many of the variables in this complex equation.

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.

Public and private sewers

In February 2007, DEFRA announced that private sewers, which are currently the responsibility of the owners of the properties they serve, are to be transferred into the ownership of the nine statutory water and sewerage companies in England.

This decision follows an extensive review of private sewers which was launched in 2001 in response to concerns raised by householders. A consultation in 2003 revealed a high level of support for the transfer and the Government concluded there was a clear case for action. This will almost double the length of sewers that Yorkshire Water is responsible for maintaining in the future.

In July 2007 the Government launched a second public consultation to seek views on how the transfer should be implemented DEFRA is currently examining the issues raised and will make an announcement on the method of transfer before consulting further on regulations to bring any transfer into effect

Supplier markets

The group is also subject to external market forces, where input prices can sometimes rise beyond the regulatory allowance, for example, the current fluctuation in energy and chemical prices

Key performance indicators – glossary

FINANCIAL KEY PERFORMANCE INDICATORS

Interest cover

This measure provides an indication of whether the group'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 audited accounts in the group income statement.

Gearing

This ratio measures the proportion of assets invested in the business that are financed by borrowing and is calculated as net debt as a proportion of net debt plus net assets. These figures are disclosed in the audited accounts in the balance sheet and Note 25.

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 the group's net debt as a proportion of the RCV, which is published in Yorkshire Water's audited regulatory accounts.

NON FINANCIAL KEY PERFORMANCE INDICATORS

These all relate to Yorkshire Water.

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 customer's 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

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 3 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.

RIDDOR - or the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) - place 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

The directors present their report, together with the audited financial statements for the year ended 31 March 2008

The results of the company are set out from page 36 onwards

The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2008 (2007 23 0p) An interim dividend of 10 65 pence was paid on 4 January 2008 (2007 9 25p)

Business Review

A review of the developments and performance of the business of the group, including the financial performance during the year, key performance indicators and a description of the principal risks and uncertainties facing the group, forward-looking statements, and treasury policy are set out in the business review section of this annual report on page 5 onwards

The annual report contains certain forward looking statements with respect of 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

Principal activities

The principal activities of the group are the supply of clean water and the treatment and disposal of waste water Yorkshire Water, the group's regulated utility business in the UK, is responsible for both water and waste water services

The group's other businesses are the UK non-regulated water and waste water services business, Kelda Water Services Limited, and KeyLand Developments Limited, a company which primarily develops surplus property assets of Yorkshire Water

Following the sale of the group's US regulated water supply business in 2007, it continues to operate a contract for supply of water in Bridgeport, Connecticut

Directors

The following directors held office during the year

John Alan Napier

Edmund John Seward Anderson (resigned 13 February 2008)

Catherine Rosemary Reid Avery (resigned 13 February 2008)

Allison Margaret Bainbridge (appointed 18 February 2008)

Stuart Harvey Baldwin (appointed 13 February 2008 and resigned 6 June 2008)

Richard John Cole (appointed 13 February 2008 and resigned 22 May 2008)

John George Norman Duthie-Jackson (appointed 13 February 2008 and resigned 6 June 2008)

Christopher Charles Fisher (resigned 13 February 2008)

Stephen Bernard Lilley (appointed 19 February 2008 and resigned 6 June 2008)

Richard Schmidt (resigned 1 August 2007)

Martin George Towers (resigned 18 February 2008)

Kevin Ian Whiteman

Disclosure of information to the auditor

At the date of this report, as far as each director is aware, there is no relevant audit information which the group's auditor is 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 group's auditor is aware of that information

Corporate and social responsibility

There are group policies for the environment, health and safety and human resources, as well as a code of ethics

The internal control processes, described on page 30 take account of social, environmental and ethical risks. In addition, the board receives information as part of the normal reporting process to identify and assess such significant risks where they are relevant to the nature of the company's business. Further details are included in the following sections of this report

Employees and employment policies

The group strives to create a positive working environment for all colleagues and places great emphasis on open two-way communications. It values involvement 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 large part in achieving our vision to be a great place to work

The group promotes freedom of association, principally through its diversity strategy and through collective bargaining arrangements with its recognised

trade unions In those parts of the group where union representation is low, wider franchise is achieved through involving workforce representatives on joint working parties and works council type arrangements

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

Regular employee satisfaction surveys are undertaken throughout the group, using a variety of survey tools including telephone-based, online and paper-based surveys

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 business plan targets

The group'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 During the year the group completed a diversity recruitment project and held a successful diversity conference for colleagues and external partners The group's diversity work was recognised with Yorkshire Water receiving the Personnel Today award for Diversity in the Workplace Also in 2007 the company's business-focused approach to diversity featured as a case study on a website created by the London Development Agency for businesses in their region

The group 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

Disabled persons

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

Health and safety

The group is committed to achieving high health and safety standards throughout the business. 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 group has established a framework of policy/procedural requirements by which all subsidiaries must have in place appropriate health and safety policies and procedures and provide necessary information, instruction, training and supervision. In addition, the group provides occupational health, safety and welfare advisory services for employees.

Specific health and safety goals are also set by the business. These goals include a combination of reduction in 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. The 'Think Safety First' programme launched in 2006 included 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. We have seen raised safety awareness, a 20% reduction in reported accidents and reduced sickness absence since the programme was launched.

Consultation with all employees via 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.

The group places significant emphasis on both accident prevention and health promotion. 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 2007/08.

Environment and community

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 group's web-based environment and community report which is regularly updated and independently verified. This can be viewed at <http://csr.keldagroup.com>

The group 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.

Charitable and political donations

Charitable donations totalling £0.7m (2006: £0.6m) were made during the year. No political donations were made.

Research and development

The group undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2007/08, £4.4m (2007: £4.6m) was committed to research and development including £3.6m (2007: £3.7m) on fixed assets.

Auditor

The group policy designed to safeguard the independence and objectivity of the external auditor is included in the corporate governance section on page 29.

Payments to suppliers

The group's normal terms are to make payment in accordance with suppliers' terms of trade or within 30 days from receipt of services or invoices subject to satisfactory performance by the supplier. Kelda Group Limited is a holding company and, at 31 March 2008, had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts.

Financial instruments

Details are provided in the accounts section under note 23

Likely future developments

Future events are dealt with on pages 13 to 14 in the Looking forward section

Change of name

On 3 July 2008, Kelda Group plc was re-registered as a private company and consequently changed its name to Kelda Group Limited

Annual General Meeting

The notice convening the company's 2008 annual general meeting to be held on 29 July is set out in a separate document issued to shareholders

By order of the Board



Stuart McFarlane
Group Company Secretary
7 July 2008

Corporate Governance report

Throughout the year the board remained accountable to the company's shareholders for maintaining standards of corporate governance. The board considers that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Combined Code.

The following is an explanation of how the company has complied with the Combined Code throughout the year.

The board of directors

The board held seven scheduled meetings during the year. Additional meetings were held where it was considered appropriate or where business needs required. In addition, meetings of the non executive directors were held when required. The board had a schedule of matters reserved for its decision and the requirement for board approval on these matters was communicated widely throughout the senior management of the group.

The board determines the group's strategic objectives and key policies, and approves the business plans for each group 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. The board is also responsible for establishing and reviewing the group's system of internal control and risk management, and reviewing at least annually its effectiveness. The roles of the board, the chairman and the chief executive are formally set out and agreed by the board. 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 group and their responsibilities, meetings with key managers, and visits to the group'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 group 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' insurance in place.

At the end of the year, the board comprised a chairman, two executive directors and four non executive directors. Prior to their resignations after the completion of the acquisition of the company by Saltaire Water Limited, Ed Anderson, Kate Avery, Christopher Fisher and David Salkeld were considered by the board to be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent

judgements David Salkeld was the senior independent director The roles of chairman and chief executive are separate and held by John Napier and Kevin Whiteman respectively John Napier met the independence criteria of the Combined Code on his appointment, although he subsequently served in an interim executive capacity, which he relinquished in September 2002

Any director appointed during the year is required, under the provisions of the company's articles of association, to retire and seek election by shareholders at the next annual general meeting The articles of association of the company require each director to be subject to re-election at intervals of no more than three years

The board has delegated certain authority to the following committees, each having formal terms of reference

Executive committee

Chaired by the chief executive and comprising the executive directors and the chairman, it has delegated authority to deal with specific matters remitted to it by the board

Audit committee

Until his resignation on 13 February 2008, Ed Anderson was the chairman of the audit committee from 1 September 2007, having taken over from Christopher Fisher The other members of the committee (until their resignations at the same time) were Christopher Fisher and Kate Avery The committee is to be reconstituted from the new non executive directors All three members of the audit committee were independent non executive directors and each had sufficient recent relevant financial experience to discharge his/her functions Kate Avery was a director of Legal & General which owned 4.1% of the company's shares as at 12 February 2008 The company did not consider this to affect her independence and her role in Legal & General did not include direct responsibility for investment decisions The external auditor, the head of internal audit and the company secretary attended all meetings The group finance director and group financial controller attended by invitation The committee also met with the external auditor without the presence of executive management when it considered it necessary or appropriate to do so The committee chairman reported on the activities of the committee to the board meeting immediately following each committee meeting

The audit committee's key tasks include

- reviewing and monitoring of the integrity of the interim and annual financial statements,
- reviewing of the group'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,
- monitoring and reviewing of 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 auditor 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. In particular, during the year, the committee considered significant accounting policies in relation to the adoption of International Financial Reporting Standards.

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. Additional matters considered during the year included, accounting for the disposal of Aquarion (the group's US water interests), the scope of the 2008 June Return, and the impact of the Transparency Directive. The company has a policy for disclosure of malpractice and the audit committee reviews the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The independence and objectivity of the external auditor 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 group's relationship with its external auditor 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.

The split between audit and non audit fees for the year to 31 March 2008 appears at Note 4 to the financial statements. The amount and nature of non audit fees are considered by the committee not to affect the independence or objectivity of the external auditor.

Remuneration committee

Members of the committee during the year were David Salkeld, Christopher Fisher and Kate Avery. Following their collective resignations on 13 February 2008, it is proposed to re-constitute the committee from the new non executive directors.

Nomination committee

John Napier was chairman of the nomination committee. The other members were Kate Avery, Ed Anderson, Christopher Fisher and David Salkeld until their resignations.

Corporate social responsibility committee

John Napier is chairman of the corporate social responsibility committee and Kevin Whiteman is a member of it. Roger Hyde, a non executive director of Yorkshire Water, is also a member of the committee. He was formerly the Head of the Environment Agency, North East Region. The committee recommends to the 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](http://csr.keldagroup.com)

Board attendance

Board members attended all scheduled meetings, with the exception of Kate Avery who was unable to commit to two meetings.

Communication with shareholders

Throughout the year shareholders had direct access to the company via the investor relations section of its website at www.keldagroup.com and its free shareholder information telephone service.

Prior to the acquisition of the company by Saltire Limited, there was regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders had the opportunity to put questions at the company's annual general in August 2007 and the EGM in January 2008. The board received reports from executive directors following meetings with investors. Formal reports of investor feedback were presented to the board following the interim and annual results presentations. An investor relations report was presented to the board each month.

Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. 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 group 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, and 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. During the financial year, material joint ventures have been dealt with as part of the group for the purposes of applying the guidance.

The group has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities. There is a group procedure governing appraisal and approval of business development and investment expenditure. Post completion reviews are required on significant business development projects and material investment expenditure.

The group'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:

- The main risks facing the group 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 generally meets four times each year and reviews the effectiveness of the systems which are in place and reports to the board.
- A risk management forum, chaired during the year by the group financial controller, has been established with formal terms of reference comprising senior management from key disciplines and operating companies. It advises and assists operational managing directors 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 board. During the year the audit committee undertook a detailed review of the process. As a result, a more detailed process for evaluation and prioritisation of risks has been adopted, involving specific measures of potential impact and likelihood of risks arising.

In addition to this process, Kelda's businesses were 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.

The board confirms that it has reviewed the effectiveness of the system of internal control. It has received the reports of the audit committee and has conducted a formal annual review covering all controls including financial,

operational, compliance and risk management, in accordance with the *Internal Control Guidance for Directors on the Combined Code*, issued in September 1999 and updated in October 2005. Following its review the board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

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 group and the company 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 prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The group and company financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and group 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 that the group financial statements comply with IFRSs as adopted by the European Union, and with regard to the company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the group and company financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the group financial statements comply with the Companies Act 1985 and the company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Kelda Group Limited

We have audited the financial statements of Kelda Group Limited for the year ended 31 March 2008 which comprise the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognised income and expense and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the company financial statements of Kelda Group Limited for the year ended 31 March 2008.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group 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 group financial statements give a true and fair view and whether the group financial statements have been 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 group 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, 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 group financial statements. This other information comprises the Directors' Report, the Business Review and other matters listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the Kelda Group Limited 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 basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group 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 group financial statements.

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the group financial statements



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
7 July 2008

Group income statement

Year ended 31 March 2008

	Note	2008 £m	2007 £m
Group revenue	3	877.6	832.6
Operating costs	4	(508.8)	(494.6)
Exceptional items	5	(20.4)	-
Total operating costs		(529.2)	(494.6)
Group operating profit before share of associates and joint ventures		348.4	338.0
Share of associates' and joint ventures' profit after tax		0.7	0.2
Group operating profit from continuing operations	3	349.1	338.2
Investment income	7	61.1	64.1
Finance costs	7	(182.3)	(161.1)
Profit from continuing operations before taxation		227.9	241.2
Tax expense	8a	(37.8)	(69.5)
Profit for the year from continuing operations		190.1	171.7
Discontinued operations			
Loss for the year	9	(3.9)	(20.4)
Profit for the year attributable to equity shareholders	22	186.2	151.3

Group statement of recognised income and expense

Year ended 31 March 2008

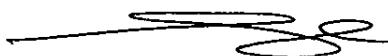
	Note	2008 £m	2007 £m
Recycling of losses on cash flow hedges to the income statement		(1.2)	(2.9)
Gains on hedges taken to equity		-	19.1
Exchange differences on retranslation of foreign operations		(1.5)	(7.9)
Actuarial gains in respect of defined benefit pension and other post-retirement benefits	20	6.5	26.1
Tax on items taken directly to equity		(1.5)	(12.7)
Other		(3.3)	(2.8)
Total of items taken directly to equity	22	(1.0)	18.9
Profit for the year attributable to equity shareholders		186.2	151.3
Total recognised income and expense attributable to equity shareholders		185.2	170.2

Group balance sheet

At 31 March 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Intangible assets	11	14.2	14.5
Property, plant and equipment	12	4,153.2	3,975.3
Investments in associated undertakings and joint ventures	13	1.9	2.0
Loans to associated undertakings and joint ventures	13	20.6	21.2
Retirement benefits surplus	20	27.3	7.3
		4,217.2	4,020.3
Current assets			
Inventories	14	0.9	0.6
Trade and other receivables	15	171.2	157.2
Cash and cash equivalents	16	9.1	30.2
Short term deposits	16	1.0	71.8
Assets included in disposal groups held for sale	9	1.0	596.0
		183.2	855.8
Total assets		4,400.4	4,876.1
Current liabilities			
Trade and other payables	17	(268.3)	(241.3)
Financial liabilities	24	(0.2)	-
Tax liabilities		(44.0)	(35.6)
Short term borrowings	16	(170.3)	(314.1)
Liabilities included in disposal groups held for sale	9	(13.1)	(285.0)
		(495.9)	(876.0)
Non-current liabilities			
Long term borrowings	16	(2,365.3)	(1,769.5)
Long term payables	17	(66.2)	(76.0)
Financial liabilities	24	(4.7)	(0.5)
Deferred grants and contributions on depreciated assets	17	(76.5)	(79.4)
Provisions	18	(1.0)	(1.2)
Deferred tax liabilities	19	(590.8)	(611.0)
		(3,104.5)	(2,537.6)
Total liabilities		(3,600.4)	(3,413.6)
Net assets		800.0	1,462.5
Capital and reserves			
Issued share capital	21	55.9	55.8
Share premium account	22	13.1	16.7
Capital redemption reserve	22	151.4	147.9
Investment in own shares	22	(0.6)	(6.7)
Hedging reserve	22	1.0	1.9
Translation reserve	22	-	2.7
Share-based payment reserve	22	4.1	4.5
Retained earnings	22	575.1	1,239.7
		800.0	1,462.5
Total equity attributable to equity holders of the parent		800.0	1,462.5

Approved by the board of directors on 7 July 2008 and signed on their behalf by



Allison Bainbridge, Group Finance Director

Group cash flow statement

Year ended 31 March 2008

	Note	2008 £m	2007 £m
Cash generated by continuing operations	25	508.6	489.4
Income taxes paid		(51.2)	(42.7)
Interest paid		(132.1)	(101.0)
Cash flows from discontinued operations		8.2	38.4
Net cash inflow from operating activities		333.5	384.1
Investing activities			
Interest received		8.7	10.6
Dividends received from associates and joint ventures		0.8	-
Loans (to)/from associates and joint ventures		0.3	(2.1)
Proceeds on disposal of subsidiaries		314.2	-
Proceeds on disposals of property, plant and equipment		16.2	6.2
Purchases of property, plant and equipment		(385.3)	(358.7)
Capital grants and contributions		19.1	25.1
Cash flows from discontinued operations			(34.3)
Net cash used in investing activities		(26.0)	(353.2)
Financing activities			
Dividends paid	10	(111.3)	(109.7)
Payments under the B share scheme		(738.3)	-
Repayment of 5 25% Eurobond		-	(401.3)
Proceeds from issuance of bonds		600.0	250.0
(Repayments of)/proceeds from other borrowings		(159.0)	358.9
Proceeds from/(repayment of obligations under) finance leases and hire purchase agreements		9.2	(62.3)
Repurchase of own shares		-	(59.3)
Cash flows from discontinued operations		(8.9)	9.5
Net cash used in financing activities		(408.3)	(14.2)
Net (decrease)/increase in cash and cash equivalents		(100.8)	16.7
Cash and cash equivalents at beginning of the year		111.4	95.7
Effect of foreign exchange rate changes on cash and cash equivalents		-	(1.0)
Cash and cash equivalents at the end of the year	16	10.6	111.4

Notes to the group accounts

1. Authorisation of financial statements and statement of compliance

The group's financial statements for the year ended 31 March 2008 were authorised for issue by the board of directors on 7 July 2008 and the balance sheet was signed on the board's behalf by Allison Bainbridge, Group Finance Director. Kelda Group Limited is a limited company incorporated and domiciled in England.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 March 2008.

2. Group Accounting Policies

(A) Basis of preparation

Basis of accounting

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 1985 as they apply to the financial statements of the group for the year ended 31 March 2008.

The financial statements have been prepared under the historical cost convention except for all derivative financial instruments which have been measured at fair value and disposal groups held for sale which have been measured at the lower of fair value less cost to sell and their carrying amounts prior to the decision to treat them as held for sale.

At 1 April 2004 ("transition date"), the group applied the following exemptions to the restatement of historical data, which are permitted by IFRS 1 "First time adoption of International Financial Reporting Standards"

(a) Business combinations The group chose not to restate business combinations prior to the transition date on an IFRS basis, as no significant acquisitions had taken place for the 3 years prior to the transition date.

(b) Employee benefits All cumulative actuarial gains and losses had been recognised in equity at the transition date. This was to maintain consistency with prospective group policy, whereby all actuarial gains and losses are recognised directly in reserves via the statement of recognised income and expense.

(c) Cumulative translation differences One of the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" is that on disposal of an

operation, the cumulative amount of exchange differences previously recognised directly in equity for that foreign operation are to be transferred to the income statement as part of the profit or loss on disposal. The group had adopted the exemption allowing these cumulative translation differences to be reset to zero at the transition date.

(d) Share-based payment. The group adopted the exemption to apply IFRS 2 "Share-based Payment" only to equity settled awards granted after 7 November 2002 and not fully vested before 1 January 2005.

(e) Infrastructure assets. The group adopted the option to restate infrastructure assets to use the fair value as the deemed cost in the balance sheet, using the fair value at the balance sheet date as deemed cost.

Basis of consolidation

The group financial statements consolidate the financial statements of Kelda Group Limited and its subsidiaries. The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting.

A subsidiary is all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies and associates and joint ventures are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

(B) Accounting policies

A summary of the principal accounting policies which, unless otherwise stated, have been consistently applied throughout the year and the preceding year, is set out below. A reclassification has been made to the disclosure of profits on the disposal of fixed assets within the group's property company KeyLand, which are now included in other operating income rather than revenue. This change has been made to the current year, but is not considered to be significantly material to adjust the prior year.

Foreign currencies

On an individual company basis, individual transactions denominated in foreign currencies are translated into functional currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the

rates ruling at the balance sheet date Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement

On consolidation, the income statements of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve Exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement

The functional and presentational currencies of the group are sterling

Goodwill arising on the acquisition of an overseas subsidiary, associate or joint venture is calculated using exchange rates applicable at the date of acquisition and is subsequently re-translated at each balance sheet date

Revenue

Revenue comprises charges to customers for water, waste water and environmental services, excluding value added tax Revenue excludes inter-company sales

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

Net operating costs

Net operating costs include the following

Dividends receivable

Dividends receivable are recognised when the shareholders' right to receive the revenue is established

Rental income

Rental income arising on investment properties is accounted for on a straight line basis over the lease term on ongoing leases

Other operating income

Profit relating to the sale of commercial and residential properties to third parties is included within other operating income, which is part of other operating costs It is recognised on completion of the sale

Investment income

Interest receivable is recognised as the interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to the net carrying amount of the financial assets

Dividends payable

Interim dividends payable are recognised on payment of the dividend. Final dividends payable are recognised on approval by shareholders in the annual general meeting

Research and development expenditure

Research expenditure is written off in the income statement in the year in which it is incurred

Development expenditure is charged to the income statement except where the expenditure meets the criteria for recognition as an internally generated intangible asset as outlined in IAS 38 "Intangible assets". Where the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from launch

Taxation*Current tax*

Current tax is calculated based on the profit before tax for the period after adjusting for the effects of items which are not deductible for tax purposes and items which are included in the tax computation but excluded from profit before tax. Adjustments relating to the finalisation of the tax computations are separately identified

Current tax for the current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior periods exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous period are held as an asset

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions

where the deferred income tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of

the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised, except

where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date

Goodwill and intangible assets

Goodwill is the excess of the fair value of the consideration paid for a business over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable

Other intangible assets comprise capitalised bid costs on contracts won within the group. Costs are capitalised from the date a group company is named as preferred bidder and then amortised over the shorter of the life of the contract or the period to the first renewal date. If preferred bidder status is withdrawn, capitalised costs will be written off immediately

Property, plant and equipment

Property, plant and equipment, including infrastructure assets, are included at cost, which represents the purchase price, less accumulated depreciation and any provision for impairment. Finance costs incurred in respect of the construction of property, plant and equipment are not capitalised.

Freehold land is not depreciated. Depreciation is charged on property, plant and equipment on a straight line basis over their estimated useful economic lives, or the estimated useful economic lives of their individual major components, from the date of commissioning, to an appropriate residual value.

Useful economic lives are principally as follows

Buildings	25 - 60 years
<i>Plant and equipment</i>	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
<i>Infrastructure assets</i>	
Water mains and sewers	40-125 years
Earth banked dams and reservoirs	200 years

Assets in the course of construction are not depreciated until commissioned.

In the UK regulated water services business, infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage, reservoirs, dams and sea outfalls. The opening balance for infrastructure assets on transition to IFRS was calculated with reference to the estimated fair value of the infrastructure network as a whole at 1 April 2004. Subsequent expenditure is classified as operating expenditure or capital and accounted for appropriately.

Impairment of property, plant and equipment and goodwill

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Useful lives and residual values are reviewed annually. Where adjustments are required, these are made prospectively and are calculated on a case by case basis.

Impairment on goodwill is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised. When an entity is disposed of, any goodwill associated with it is included in the carrying amount of the operation when determining the gain or loss on disposal.

Accounting for leases

Finance leases

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 property, plant and equipment and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the income statement 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 income statement over the term of the lease in proportion to the capital amount outstanding. Any arrangement fees or other direct costs incurred on a finance lease are capitalised and amortised over the length of the lease.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Lease payments are charged to the income statement on a straight line basis over the term of the lease.

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Government grants which can be allocated against an individual asset are included as part of the carrying value of the asset. Government grants which cannot be allocated to individual assets are held as deferred income and released to the income statement over the life of the grant.

Investments in joint ventures and associates

The group has a number of contractual arrangements with third parties which represent joint ventures, these take the form of agreements to share control over other companies. The group recognises its interest in the entity's assets and liabilities using the equity method of accounting.

The group's interest in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting.

Under the equity method, the investment in the joint venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the group's share of its

net assets, less distributions received and less any impairment in value of individual investments. The group income statement reflects the share of the joint ventures' and associates' results after tax.

Financial statements of joint ventures and associates are prepared for the same reporting period as the group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the group. The group ceases to use the equity method on the date from which it no longer has control over or significant influence in the joint venture or associate. Any unrealised gains or losses between the group and its joint ventures and associates are eliminated on consolidation.

Inventories

Inventories are stated at the lower of cost and net realisable value less any provision necessary to recognise damage and obsolescence. Cost includes labour, materials and an appropriate proportion of overheads.

Provisions

Provision is made for self-insured claims incurred but not reported, and other known liabilities which exist at the year end as a result of a past event.

Financial instruments

Cash and cash equivalents

Cash and cash equivalents include short-term deposits with original maturity within 3 months net of outstanding bank overdrafts held with the same bank where there is a legal right and intention to offset. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts held with other banks where no legal right of offset is in effect.

Trade and other receivables

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

Invoices for unmeasured water charges are due on predetermined dates, irrespective of date of receipt. Other trade receivables generally have 7-30 day payment terms. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Trade and other payables

Trade and other payables are not interest-bearing and are stated at their nominal value.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective

interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Derivative financial instruments

The group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability and unrecognised firm commitments, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges, which hedge highly probable forecasted transactions and which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged highly probably forecasted transaction results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity and any gain or loss on the ineffective portion is recognised in the income statement. On disposal of the foreign operation the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

Employee benefits

Pension plans

(i) Defined contribution scheme

The group operates 3 defined contribution schemes for those members of staff who are not members of its defined benefit scheme. 2 pension plans exist under which the group pays a fixed contribution into a separate entity which operates the schemes. The other provides the employees with a lump sum on retirement, with which they then invest in an annuity. Other than this contribution, the group has no further legal or constructive obligation to make further contributions to the scheme.

Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

Defined benefit scheme

The group operates a defined benefit scheme. A defined benefit scheme is a pension plan under which the amount of pension benefit that an employee receives on retirement is defined by reference to factors including age, years of service and compensation.

The scheme is funded by payments, determined by periodic actuarial calculations agreed between the company and the trustees to trustee administered funds.

A liability or asset is recognised in the balance sheet in respect of the group's net obligations to the scheme calculated separately for each scheme. The liability represents the present value of the defined benefit obligations at the balance sheet date, less the fair value of the scheme assets and past service costs.

The defined benefit obligation represents the estimated amount of future benefits that employees have earned in return for their services in current and prior periods, discounted at a rate representing the yield on a high quality corporate bond at the balance sheet date, denominated in the same currency as the obligations and having the same terms to maturity as the related pension liability, applied to the estimated future cash outflows arising from these obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses at 1 April 2004, the date of transition to IFRS, have been recognised in the group's reserves. Actuarial gains and losses on experience adjustments and changes in actuarial assumptions that arise subsequent to 1 April 2004 are recognised in the period in which they arise directly in the statement of recognised income and expense.

Equity settled share based payments

Savings related share option scheme

In prior years, the group 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 year, the scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. 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 Long Term Incentive Plan. 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 current year, the plan was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. Any vesting which occurred as a result of the takeover has been dealt with in the same way as in previous years.

Investment in own shares

The group has an employee share trust (ESOT) which was previously used for the granting of group shares to executives and senior employees. Shares in the group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity.

The finance costs and administration costs relating to the ESOT are charged to the income statement. Dividends earned on shares held in the Trust have been waived.

Segmental reporting

The group's primary reporting format is by business segment and its secondary format is by geographical segment. A segment is a component of the group which can be distinguished separately as providing a product or service within a particular environment which is subject to risks and rewards that are different from those of other segments. The group has identified 3 business segments.

- UK Regulated Water Services – Yorkshire Water
- UK Service Operations – Kelda Water Services, Safe-Move and Loop
- Property Development – KeyLand

The directors' report details the activities of each segment.

Transfer pricing between business segments is set on an arms' length basis similar to transactions with third parties.

The group's geographical segments are determined by the location of the group's assets and operations.

Disposal groups held for sale

On classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs to disposal. Profits or losses associated with these assets are classified as "Profit/(loss) for the year from discontinued operations". Impairment losses on initial classification as held for sale are also included in this classification, as are any gains and losses on subsequent re-measurement.

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

Principal areas of judgement

The directors consider the principal areas of judgement in the accounts to be

- assumptions relating to the retirement benefit surplus
- the timing of the reversal of deferred tax assets and liabilities
- potential impairments to goodwill

(C) New standards and interpretations

New standards and interpretations effective by 31 March 2008

IFRS 7, 'Financial instruments Disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and trade debtors and does not have any impact on the classification and valuation of the group or company's financial instruments

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the group or the company's financial statements. The company already applies an accounting policy which complies with IFRIC 8

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the group or company's financial statements

New standards and interpretations not yet effective

During the year the IASB and IFRIC have issued a number of new standards, amendments and interpretations with an effective date after the date of these financial statements. Of these, only the following are expected to be relevant to the group

IAS 23 (Amendment)	Borrowing costs	1 January 2009
IFRS 3 (Amendment)	Business combinations	1 July 2009
IFRS 8	Operating segments	1 January 2009
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	Limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application, except IFRIC 14

If the group has a defined benefit asset at the time of implementation of IFRIC 14, this may reduce the asset which can be recognised by the group in respect of the defined benefit scheme. This will be assessed at the date of implementation when further information is available

3. Segmental analysis

The primary segment reporting format is determined to be business segments as the group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided.

Transfer prices between business segments are set on an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include transfers between business segments. Those transfers are eliminated on consolidation. It is not possible to split the retirement benefit surplus between the UK subsidiary companies. It is therefore recognised within the unallocated segment.

**Year ended 31 March
2008**

	UK regulated water services £m	KeyLand - group £m	KeyLand - assoc £m	UK service ops group £m	UK service ops - JVs £m	Eliminations/ unallocated £m	Total continuing £m	Reallocation to other operating income £m	Less assoc and JVs £m	Total continuing after reallocations £m	US operations (discontinued) £m	Total £m
Total revenue inter-company revenue	785.0	17.7 (0.6)	22.7	119.1 (26.5)	86.3	-	1,030.8 (27.1)	(17.1)	(109.0)	904.7 (27.1)	18.6	923.3 (27.1)
External revenue	785.0	17.1	22.7	92.6	86.3	-	1,003.7	(17.1)	(109.0)	877.6	18.6	896.2
Depreciation	(155.6)	-	-	(0.7)	-	-	(156.3)	-	-	(156.3)	-	(156.3)
Amortisation of deferred grant income	3.2	-	-	-	-	-	3.2	-	-	3.2	-	3.2
Other operating costs	(268.6)	(12.1)	(22.4)	(85.7)	(78.1)	-	(486.9)	17.1	109.0	(340.8)	(18.7)	(359.5)
	364.0	5.0	0.3	6.2	8.2	-	383.7	-	-	383.7	(0.1)	383.6
Unallocated corporate expenses							(6.4)			(6.4)		(6.4)
Exceptional items							(20.4)			(20.4)		(20.4)
							356.9			356.9	(0.1)	356.8
Less associates' and joint ventures' interest							(6.4)			(6.4)		(6.4)
Less associates' and joint ventures' tax							(1.4)			(1.4)		(1.4)
Group operating profit							349.1			349.1	(0.1)	349.0
Investment income							61.1			61.1		61.1
Finance costs							(182.3)			(182.3)		(182.3)
Profit from continuing operations before taxation							227.9			227.9		227.9
Tax expense							(37.8)			(37.8)		(37.8)
Profit for the year from continuing operations							190.1			190.1		190.1

Year ended 31 March 2008

	UK regulated water services	KeyLand - group	UK service ops group	Eliminations/ unallocated	Total continuing	US operations (discontinued)	Total
	£m	£m	£m	£m	£m	£m	£m
Balance sheet							
Assets	4,278.3	39.3	36.1	35.6	4,389.3	0.5	4,389.8
Liabilities	(979.8)	(5.8)	(19.9)	(46.2)	(1,051.7)	(13.1)	(1,064.8)
Net Debt	(2,565.4)	(1.9)	(2.4)	44.2	(2,525.5)	0.5	(2,525.0)
Net Assets	733.1	31.6	13.8	33.6	812.1	(12.1)	800.0

Net debt of £2,525.0 as noted above includes cash of £9.6m and short term deposits of £1.0m which are included in the balance sheet within total assets and liabilities of £2,535.6m which are included on the balance sheet in total liabilities. Net debt is defined in note 25, and does not include financial liabilities.

Year ended 31 March 2008

	UK regulated water services	KeyLand - group	UK service ops group	Total continuing	US operations (discontinued)	Total
	£m	£m	£m	£m	£m	£m
Other Information						
Capital Additions	365.0	0.9	3.4	369.3	-	369.3

**Year ended 31 March
2007**

	UK regulated water services £m	KeyLand - group £m	KeyLand - assoc £m	UK service ops group £m	UK service ops - JVs £m	Eliminations/ unallocated £m	Total continuing £m	Reallocation to other operating income £m	Less assoc and JVs £m	Total continuing after reallocations £m	US operations (discontinued) £m	Total £m
Total revenue	741 1	7 0	0 5	111 6	45 8	-	906 0	-	(46 3)	859 7	99 4	959 1
Inter-company revenue	-	(0 6)	-	(26 5)	-	-	(27 1)	-	-	(27 1)	-	(27 1)
External revenue	741 1	6 4	0 5	85 1	45 8	-	878 9	-	(46 3)	832 6	99 4	932 0
Depreciation	(140 0)	(0 1)	-	(0 8)	-	-	(140 9)	-	-	(140 9)	-	(140 9)
Amortisation of deferred grant income	3 2	-	-	-	-	-	3 2	-	46 3	3 2	-	3 2
Other operating costs	(271 6)	(2 0)	(0 5)	(78 7)	(40 7)	-	(393 5)	-	-	(347 2)	(57 8)	(405 0)
	332 7	4 3	-	5 6	5 1	-	347 7	-	-	347 7	41 6	389 3
Unallocated corporate expenses							(4 6)			(4 6)	-	(4 6)
							343 1			343 1	41 6	384 7
Less associates' and joint ventures' interest							(4 4)			(4 4)	-	(4 4)
Less associates' and joint ventures' tax							(0 5)			(0 5)	-	(0 5)
Group operating profit							338 2			338 2	41 6	379 8
Investment income							64 1			64 1		
Finance costs							(161 1)			(161 1)		
Profit from continuing operations before taxation							241 2			241 2		
Tax expense							(69 5)			(69 5)		
Profit for the year from continuing operations							171 7			171 7		

Year ended 31 March 2007

	UK regulated water services £m	KeyLand - group £m	UK service ops group £m	Eliminations/ unallocated £m	Total continuing £m	US operations (discontinued) £m	Total £m
Balance sheet							
Assets	4,150 9	47 2	28 2	(48 2)	4,178 1	586 6	4,764 7
Liabilities	(1,430 3)	(4 3)	(21 4)	411 0	(1,045 0)	(152 9)	(1,197 9)
Net Debt	(2,429 5)	(12 1)	40 2	419 8	(1,981 6)	(122 7)	(2,104 3)
Net Assets	291 1	30 8	47 0	782 6	1,151 5	311 0	1,462 5

Net debt of £1,981 6 as noted above includes cash of £111 4m which is included in the balance sheet within total assets and liabilities of £2215 7m which are included on the balance sheet in total liabilities Net debt is defined in note 25, and does not include financial liabilities

Year ended 31 March 2007

	UK regulated water services £m	KeyLand - group £m	UK service ops group £m	Total continuing £m	US operations (discontinued) £m	Total £m
Other Information						
Capital Additions	342 2	4 3	1 2	347 7	34 5	382 2

The group's geographical segments are based on the group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The group's assets are located in the United Kingdom and North America.

The following provides an analysis of sales, assets and capital expenditure by geographical market.

Year ended 31 March 2008

	United Kingdom	North America (discontinued)	Total
	£m	£m	£m
Sales revenue	877.6	18.6	896.2
Carrying value of assets	4,389.3	0.5	4,389.8
Capital additions to property, plant and equipment	369.3	-	369.3

Year ended 31 March 2007

	United Kingdom	North America (discontinued)	Total
	£m	£m	£m
Sales revenue	832.6	99.4	932.0
Carrying value of assets	4,178.1	586.6	4,764.7
Capital additions to property, plant and equipment	347.7	34.5	382.2

4. Operating costs

	Continuing operations £m	Discontinued operations £m	2008 total £m	Continuing operations £m	Discontinued operations £m	2007 total £m
Own work capitalised	(26.5)	-	(26.5)	(26.6)	(5.8)	(32.4)
Raw materials and consumables	14.9	-	14.9	20.6	-	20.6
Other external charges	255.5	18.7	274.2	257.2	37.1	294.3
Staff costs (see note 6)	116.1	-	116.1	111.3	27.2	138.5
Depreciation of property, plant and equipment						
On owned assets						
- UK infrastructure	21.4	-	21.4	20.2	-	20.2
- other assets	122.4	-	122.4	108.3	-	108.3
On assets held under finance lease						-
- UK infrastructure	1.8	-	1.8	1.8	-	1.8
- other assets	10.7	-	10.7	10.6	-	10.6
Operating lease rentals - minimum lease payments						
- plant and equipment	2.3	-	2.3	2.1	-	2.1
- other	0.3	-	0.3	0.3	-	0.3
Amortisation of grants and contributions	(3.2)	-	(3.2)	(3.2)	-	(3.2)
Amortisation of intangible assets	0.3	-	0.3	0.5	-	0.5
Research and development	0.8	-	0.8	0.9	-	0.9
Impairment of trade receivables	7.8	-	7.8	6.5	-	6.5
Other operating income	(15.8)	-	(15.8)	(15.9)	(0.7)	(16.6)
	508.8	18.7	527.5	494.6	57.8	552.4

Auditors' remuneration

The remuneration of the auditors is analysed as follows

	2008 £m	2007 £m
Fees payable to company's auditors for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable to the company's auditors and its associates for other services		
- the audit of company's subsidiaries pursuant to legislation	0.1	0.4
- taxation services	-	0.2
- valuation and actuarial services	0.1	-
- corporate finance services	-	0.3
	0.2	0.9
	0.3	1.0

£12,000 (2007: £16,000) of the audit of the financial statements relates to the company

5. Exceptional items

Exceptional items consist of

	2008	2007
	£m	£m
Insurance proceeds received in relation to capital and operations	33.0	-
Write off book value of associated assets	(15.5)	-
Costs incurred on corporate transactions	(33.2)	-
Restructuring costs	(4.7)	-
	(20.4)	-

Insurance proceeds received and associated assets written off were received to reinstate flood damaged assets, the cost of which will appear within capital expenditure as incurred

Costs incurred on corporate transactions relate mainly to the acquisition of Kelda Group plc by Saltaire Water Limited in February 2008 and the return of capital to shareholders in July 2007

Restructuring costs relate to redundancy and other restructuring costs within one of the divisions of Yorkshire Water

6. Directors and employees

	2008 Number	2007 Number
Average monthly number of people employed		
Continuing operations:		
UK regulated water services	2,234	2,198
Other activities	1,129	1,061
Discontinued operations:		
US operations	-	584
	3,363	3,843

	Continuing operations £m	Discontinued operations £m	2008 total £m	Continuing operations £m	Discontinued operations £m	2007 total £m
Total employment costs:						
Wages and salaries	92.3	-	92.3	87.4	19.5	106.9
Social security contributions	9.3	-	9.3	8.7	1.1	9.8
Other pension costs	14.5	-	14.5	15.2	6.6	21.8
	116.1	-	116.1	111.3	27.2	138.5

Included in wages and salaries is a total share-based payment expense of £1.5m (2007: £1.9m), all of which relates to transactions accounted for as an equity-settled share-based payments.

	2008 £m	2007 £m
Directors' emoluments		
Aggregate emoluments	2.1	1.4
Amounts receivable under long term incentive plans	1.0	0.3
Company pension contributions to money purchase schemes	0.2	0.2
Number of directors accruing benefits under defined benefit schemes	2	2

The highest paid director received £1.1m. During 2007/08, all executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2007/08 was £0.1m.

The remuneration of the directors, who are the key management personnel of the group, is set out in note 27 in aggregate for each of the categories specified in IAS 24.

7. Investment income and finance costs

	Continuing operations £m	Discontinued operations £m	2008 total £m	Continuing operations £m	Discontinued operations £m	2007 total £m
Investment income						
Interest on bank deposits	8.7	-	8.7	10.6	0.6	11.2
Gain on cross currency swap	-	-	-	7.8	-	7.8
Return on pension scheme assets (see note 20)	52.4	-	52.4	45.7	3.1	48.8
Total investment income	61.1	-	61.1	64.1	3.7	67.8
Finance costs						
Bank loans and overdrafts	19.3	-	19.3	30.0	-	30.0
Other loans	8.1	1.1	9.2	3.6	10.1	13.7
6.625% bond 2031	15.8	-	15.8	16.0	-	16.0
6.875% guaranteed bonds 2010	13.8	-	13.8	13.8	-	13.8
5.25% Eurobond 2006	-	-	-	14.4	-	14.4
5.375% bond 2023	10.8	-	10.8	10.8	-	10.8
3.048% Index linked guaranteed bond 2033	8.5	-	8.5	6.9	-	6.9
1.46% Index linked guaranteed bond 2056	6.1	-	6.1	2.9	-	2.9
1.462% Index linked guaranteed bond 2051	6.1	-	6.1	2.9	-	2.9
1.758% Index linked guaranteed bond 2054	3.5	-	3.5	-	-	-
1.823% Index linked guaranteed bond 2050	2.6	-	2.6	-	-	-
1.7085% Index linked guaranteed bond 2058	3.9	-	3.9	-	-	-
5.5% Index linked guaranteed bond 2027	6.9	-	6.9	-	-	-
5.125% Index linked guaranteed bond 2037	8.6	-	8.6	-	-	-
Amortisation of issue costs in respect of bonds	0.5	-	0.5	0.6	-	0.6
Finance leases	25.2	-	25.2	20.4	-	20.4
Interest cost on pension scheme liabilities (see note 20)	42.6	-	42.6	38.8	3.9	42.7
Total finance costs	182.3	1.1	183.4	161.1	14.0	175.1

No interest has been capitalised by the group during the year (2007 £nil)

8. Tax expense

8a

	2008 £m	2007 £m
Current tax		
UK corporation tax at 30% (2007 30%)	62.3	49.6
UK adjustments in respect of prior years	(2.8)	(1.4)
Total current tax from continuing operations	59.5	48.2
US tax - discontinued operations	0.1	4.8
Total current tax	59.6	53.0
Deferred tax		
UK (credit)/charge for temporary differences arising and reversing in the year	(23.1)	22.8
UK adjustments in respect of prior years	1.4	(1.5)
Total deferred tax on continuing activities (see note 19)	(21.7)	21.3
US deferred tax - discontinued operations	-	1.4
Total deferred tax	(21.7)	22.7
Total tax on profit on ordinary activities	37.9	75.7
The tax charge in the income statement is disclosed as follows		
Taxation on profit from ordinary activities	37.8	69.5
Tax on discontinued operations	0.1	6.2
	37.9	75.7
Tax relating to items charged or credited to equity		
Deferred tax:		
Actuarial gains/(losses) in respect of defined benefit pension schemes and other post-retirement benefits	1.8	(7.8)
Net loss on revaluation of cash flow hedge	(0.3)	(4.9)
Tax charge in the statement of group recognised income and expense	1.5	(12.7)

8b

The differences between the total current and deferred tax charge shown and the amount calculated by applying the national rates of corporation tax (UK 30%, US 40.9%) to the profit on ordinary activities before tax is as follows

	2008 £m	2007 £m
Profit from continuing operations before taxation	227.9	241.2
Loss from discontinued operations before taxation	(3.8)	(14.2)
Less share of associates' and joint ventures' taxation	1.4	0.5
Profit on ordinary activities before tax	225.5	227.5
Less share of associates' and joint ventures' profit before tax	(2.1)	(0.7)
Group profit on ordinary activities before tax	223.4	226.8
Current and deferred tax on group profit on ordinary activities at the standard UK tax rate	67.0	68.0
Effects of		
Expenses not deductible for tax purposes	11.5	8.4
Change in deferred tax rate	(41.9)	-
Adjustment for tax relief on share based payments no longer receivable	2.7	-
Pension obligation and share-based payments	-	0.6
Adjustments to tax charge in respect of prior periods	(1.4)	(2.9)
Higher taxes on overseas earnings	-	1.6
Group current and deferred tax charge for the period	37.9	75.7

Deferred tax credit for the year relates to the following

	2008 £m	2007 £m
Accelerated depreciation for tax purposes	(30.7)	7.8
Fair value adjustment of infrastructure assets	3.1	(0.3)
Roll over relief	0.1	-
Financial instruments	(0.1)	-
Share-based payments	3.2	-
Retirement benefit obligations	2.7	13.8
Deferred tax charge	(21.7)	21.3

From 1 April 2008 the UK rate of corporation tax will reduce from 30% to 28%

There will also be changes to the capital allowance regime including the phasing out of industrial buildings allowances

If the above changes had been applied to the current year's results there would have been a reduction in the current year corporation tax charge of less than £4m but a significant increase in the deferred tax charge of over £140m. This substantial increase in deferred tax arises as there is currently a balance of over £500m of expenditure on industrial buildings for which no tax relief has yet been claimed and only a small proportion of this will be claimed in the phasing out period after which no further allowances will be available.

There are no other factors expected to impact on the tax charge in future periods.

9. Discontinued operations

During the year, the group disposed of its holding in Aquarion, its US regulated water business, and Aquarion Operating Services for total consideration of £314.2m

Both operations have been treated as discontinued in the year

The results of these operations which are included within the group's results are summarised below

	2008 £m	2007 £m
Revenue	18.6	99.4
Operating expenses	(18.7)	(57.8)
Operating (loss)/profit	(0.1)	41.6
Impairment charge	(2.6)	(45.5)
Investment income	-	3.7
Finance costs	(1.1)	(14.0)
Loss before tax for discontinued operations	(3.8)	(14.2)
Tax expense	(0.1)	(6.2)
Loss for the year from discontinued operations	(3.9)	(20.4)

The major classes of assets and liabilities relating to US operations included in disposal groups held for sale

	2008 £m	2007 £m
Assets		
Property, plant and equipment	-	388.8
Intangible assets	-	172.8
Trade receivables	0.5	25.0
Cash and short term investments	0.5	9.4
	1.0	596.0
Liabilities		
Trade and other payables	(13.1)	(113.8)
Deferred tax liability	-	(19.0)
Pension obligation	-	(20.1)
Borrowings	-	(132.1)
	(13.1)	(285.0)

The net cash flows attributable to US operations are as follows

	2008	2007
	£m	£m
Operating cash flows	8.2	38.4
Investing cash flows	-	(34.3)
Financing cash flows	(8.9)	9.5
Net cash (outflow)/inflow	(0.7)	13.6

Items included in the group statement of recognised income and expense with respect of discontinued operations are as follows

	2008	2007
	£m	£m
Exchange differences on retranslation of foreign operations	(1.5)	(7.9)
Actuarial gains in respect of defined benefit pension and other post-retirement benefits	-	0.5
Tax on items taken directly to equity	-	(0.2)
Total of items taken directly to equity	(1.5)	(7.6)

10. Dividends

Final and interim dividends paid during the year were before Saltaire Water Limited had purchased the share capital of the company

	2008	2007
	£m	£m
Equity - ordinary		
Final declared and paid (relating to prior financial year) 23.0p (2007: 21.60p) per share	82.0	76.6
Interim paid 10.65p (2007: 9.25p) per share	29.3	33.1
Dividends paid	111.3	109.7
Proposed final dividend for the year ended 31 March 2008 of nil (2007: 23.0p) per share	-	81.8

Dividends for the year amounting to £0.2m (2007: £0.6m) in respect of the company's shares held by the Employee Share Ownership Trust (ESOT) (see note 21) have been waived and are therefore excluded from the aggregate of dividends paid

11. Intangible assets

	Capitalised bid costs £m	Goodwill £m	Total £m
At 1 April 2006	0.9	14.1	15.0
Amortisation	(0.5)	-	(0.5)
At 31 March 2007	0.4	14.1	14.5
Amortisation	(0.3)	-	(0.3)
At 31 March 2008	0.1	14.1	14.2

Goodwill is subject to an annual impairment test. Goodwill has arisen within two operating segments. The carrying amount of goodwill is allocated between the operating segments as follows:

	2008 £m	2007 £m
UK regulated water services (continuing operations)	14.1	14.1
US operations (discontinued operations)	-	172.8
	14.1	186.9

(a) UK regulated water services

Goodwill arose on the acquisition of the entire share capital of York Waterworks plc on 8 March 1999. Following the transition to IFRS goodwill is no longer amortised and is instead subject to annual impairment reviews.

The recoverable amount is determined on a value in use basis, using three year cash flow projections based on financial budgets approved by the board. The discount rate applied to the cash flow projections is 5.5% (2007: 5.5%). No growth rate was assumed.

(b) US operations

The goodwill relating to US operations was transferred into discontinued operations in the year ended 31 March 2005. Consideration of its carrying value has been given in note 9, and it is covered by the impairment charge included in that note.

12. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost					
At 1 April 2007	1,438.3	2,409.8	1,840.2	306.3	5,994.6
Additions	21.0	29.7	62.6	256.0	369.3
Transfers on commissioning	34.0	68.1	67.8	(169.9)	-
Disposals	(5.0)	-	(45.2)	(0.2)	(50.4)
Grants and contributions	-	-	-	(19.2)	(19.2)
At 31 March 2008	1,488.3	2,507.6	1,925.4	373.0	6,294.3
Depreciation					
At 1 April 2007	447.4	783.5	788.4	-	2,019.3
Disposals	(4.2)	-	(30.3)	-	(34.5)
Charge for the year	29.2	23.2	103.9	-	156.3
At 31 March 2008	472.4	806.7	862.0	-	2,141.1
Net book amount at 31 March 2008	1,015.9	1,700.9	1,063.4	373.0	4,153.2
Cost					
At 1 April 2006	1,400.0	2,346.8	1,747.0	195.8	5,689.6
Additions	26.4	20.2	50.2	250.9	347.7
Transfers on commissioning	21.3	42.8	51.7	(115.8)	-
Disposals	(9.4)	-	(8.7)	(0.2)	(18.3)
Grants and contributions	-	-	-	(24.4)	(24.4)
At 31 March 2007	1,438.3	2,409.8	1,840.2	306.3	5,994.6
Depreciation					
At 1 April 2006	426.6	761.5	702.9	-	1,891.0
Disposals	(4.0)	-	(8.6)	-	(12.6)
Charge for the year	24.8	22.0	94.1	-	140.9
At 31 March 2007	447.4	783.5	788.4	-	2,019.3
Net book amount at 31 March 2007	990.9	1,626.3	1,051.8	306.3	3,975.3

Assets included above held under finance leases amount to

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost	126.5	89.8	207.0	10.2	433.5
Depreciation	(27.5)	(15.4)	(109.8)	-	(152.7)
Net book amount at 31 March 2008	99.0	74.4	97.2	10.2	280.8
Cost	127.4	85.9	228.9	-	442.2
Depreciation	(25.6)	(13.5)	(112.3)	-	(151.4)
Net book amount at 31 March 2007	101.8	72.4	116.6	-	290.8

13. Investments

Details of the principal associates and joint ventures are included on page 93

	Share of net assets in associated undertakings £m	Loans to associated undertakings £m	Total investments in associated undertakings £m	Share of net assets in joint ventures £m	Loans to joint ventures £m	Total investments in joint ventures £m
Cost and share of post acquisition retained profits						
At 1 April 2006	0.4	4.0	4.4	1.4	14.7	16.1
Share of retained profits for the year	(0.4)	-	(0.4)	0.6	-	0.6
Movement in the year	-	1.4	1.4	-	1.1	1.1
At 1 April 2007	-	5.4	5.4	2.0	15.8	17.8
Share of retained profits for the year	(0.6)	-	(0.6)	0.5	-	0.5
Movement in the year	-	0.9	0.9	-	(1.5)	(1.5)
At 31 March 2008	(0.6)	6.3	5.7	2.5	14.3	16.8

The aggregate amounts of net assets, revenue and operating profit relating to associates are

	2008 £m	2007 £m
Non-current assets	10.7	3.1
Current assets	5.9	0.2
Share of gross assets	16.6	3.3
Current liabilities	(17.2)	(3.4)
Non-current liabilities	-	0.1
Share of liabilities	(17.2)	(3.3)
Share of net assets	(0.6)	-
Revenue	22.7	0.5
Operating profit	0.3	-

The aggregate amounts of net assets and net profit relating to joint ventures are

	2008 £m	2007 £m
Non-current assets	101.2	44.5
Current assets	40.3	88.8
Share of gross assets	141.5	133.3
Current liabilities	(39.5)	(58.9)
Non-current liabilities	(99.5)	(72.4)
Share of liabilities	(139.0)	(131.3)
Share of net assets	2.5	2.0
Revenue	86.3	45.8
Operating costs	(78.1)	(40.7)
Operating profit	8.2	5.1
Finance costs	(6.8)	(4.1)
Profit before tax	1.4	1.0
Income tax	(0.9)	(0.4)
Net profit	0.5	0.6

14. Inventories

	2008	2007
	£m	£m
Raw materials and consumables	0.9	0.6

15. Trade and other receivables

	2008	2007
	£m	£m
Trade receivables	85.8	75.5
Provision for impairment of trade receivables	(16.3)	(15.6)
Net trade receivables	69.5	59.9
Amounts owed by associated undertakings	1.6	1.3
Prepayments and accrued income	70.8	74.4
Other debtors	29.3	21.6
	171.2	157.2

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairments considered necessary have been made to the amounts included above. See note 23 for further details of credit risks associated with financial instruments.

Trade receivables can be analysed as follows:

	2008	2007
	£m	£m
Main charges trade debtors:		
Past due but not impaired	65.0	56.2
Past due and impaired	16.3	15.6
Other trade debtors:		
Past due but not impaired	4.6	3.7
	85.9	75.5

The ageing of trade receivables classed as past due but not impaired is as follows:

	2008	2007
	£m	£m
Main charges trade debtors		
Less than one year overdue	53.2	45.7
Between one and two years overdue	7.0	5.7
Between two and three years overdue	2.6	2.4
Between three and four years overdue	1.1	1.2
More than four years overdue	1.0	1.2
Other trade debtors:		
Less than one year overdue	4.6	3.7
	69.5	59.9

The ageing of trade receivables classed as past due and impaired is as follows

	2008	2007
	£m	£m
Main charges trade debtors.		
Less than one year overdue	10.9	10.2
Between one and two years overdue	3.1	2.9
Between two and three years overdue	1.3	1.3
Between three and four years overdue	0.5	0.6
More than four years overdue	0.5	0.6
	16.3	15.6

The movement in the provision for impairment of trade receivables is as follows

	2008	2007
	£m	£m
Provision brought forward	15.6	15.2
Provision for impairment	8.5	6.9
Amounts written off	(7.8)	(6.5)
	16.3	15.6

In all cases in both the current and prior years, the fair value of trade and other receivables is considered to be the carrying value as stated above

16. Financing

(i) Cash and short term deposits	2008 £m	2007 £m
Cash at bank and in hand	9.1	30.2
Short term deposits	1.0	71.8
	10.1	102.0

At 31 March 2008 the group had available £386.0m (2007 £831.0m) of undrawn committed borrowing facilities

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following

	2008 £m	2007 £m
Cash and cash equivalents in continuing operations	10.1	102.0
Cash and cash equivalents held in discontinued operations (note 9)	0.5	9.4
	10.6	111.4

(ii) Borrowings

	2008 £m	2007 £m
Short term borrowings		
Bank loans	164.5	308.2
Finance leases	5.8	5.9
	170.3	314.1

Long term borrowings	£m	£m
Bank loans	354.8	379.5
6.625% guaranteed bonds 2031	240.3	240.2
6.875% guaranteed bonds 2010	199.6	199.5
5.375% guaranteed bonds 2023	196.4	196.3
3.048% index linked guaranteed bonds 2033	116.6	111.6
1.462% index linked guaranteed bonds 2051	131.3	127.1
1.46% index linked guaranteed bonds 2056	131.2	127.1
5.5% guaranteed bonds 2027	148.7	-
5.125% guaranteed bonds 2037	194.5	-
1.8225% index linked guaranteed bonds 2050	66.2	-
1.75756% index linked guaranteed bonds 2054	86.7	-
1.7085% index linked guaranteed bonds 2058	101.8	-
Other loans	1.7	2.0
Finance leases	395.5	386.2
	2,365.3	1,769.5

6 625% guaranteed bonds 2031

These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6 625%

6 875% guaranteed bonds 2010

These bonds are repayable in one sum on 23 April 2010 Interest is charged at 6 875%

5 375% guaranteed bonds 2023

These bonds are repayable in one sum on 21 February 2023 Interest is charged at 5 375%

3 048% index linked guaranteed bonds 2033

These bonds are repayable in one sum on 21 February 2033 The interest is charged at 3 048% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 462% index linked guaranteed bonds 2051

These bonds are repayable in one sum on 1 August 2051. The interest is charged at 1 462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 46% index linked guaranteed bonds 2056

These bonds are repayable in one sum on 1 August 2056 The interest is charged at 1 46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

5 5% guaranteed bonds 2027

These bonds are repayable in one sum on 28 May 2027 Interest is charged at 5 5%

5 125% guaranteed bonds 2037

These bonds are repayable in one sum on 28 May 2037 Interest is charged at 5 125%

1 8225% index linked guaranteed bonds 2050

These bonds are repayable in one sum on 1 February 2050 The interest is charged at 1 8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 75756% index linked guaranteed bonds 2054

These bonds are repayable in one sum on 1 February 2054 The interest is charged at 1 75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 7085% index linked guaranteed bonds 2058

These bonds are repayable in one sum on 1 February 2058 The interest is charged at 1 7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

The group has an early repayment option on all of the above bonds, subject to the agreement of the issuer

Bank loans

Short and long term bank loans are held in sterling and bear interest at normal commercial rates. The weighted average interest rates associated with the bank loans were 5.25% (2007: 5.2%)

(iii) Finance leases

	Minimum lease payments	
	2008 £m	2007 £m
Amounts payable under finance leases		
Within one year	49.1	51.1
More than one but less than five years	222.1	228.2
After five years	494.0	474.9
	<u>765.2</u>	<u>754.2</u>
Less: future finance charges	(363.9)	(362.1)
Present value of lease obligations	<u>401.3</u>	<u>392.1</u>
Amount due for settlement within 12 months	5.8	5.9
Amount due for settlement after 12 months	<u>395.5</u>	<u>386.2</u>
	<u>401.3</u>	<u>392.1</u>

All lease obligations are denominated in sterling

The weighted average lease term is 17.5 years (2007: 11.6 years). For the year ended 31 March 2007, the average effective borrowing rate was 5.4% (2007: 5.6%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

17. Trade and other payables

	2008 £m	2007 £m
Amounts falling due within one year		
Trade payables	60.0	48.2
Capital payables	44.3	60.3
Deferred grants and contributions on depreciated property, plant and equipment	3.1	3.5
Social security and payroll deductions	5.0	3.0
Receipts in advance	59.1	53.0
Other payables	96.8	73.3
	268.3	241.3
Amounts falling due after more than one year.		
Deferred grants and contributions on depreciated property, plant and equipment	76.5	79.4
Other payables	66.2	76.0
	142.7	155.4

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value.

18. Provisions

	£m
At 1 April 2007	1.2
Utilised in year	(0.2)
At 31 March 2008	1.0

Provisions are principally in respect of self insurance and vacant properties on which costs are expected to be incurred over the next 7 years.

19. Deferred tax liability

	Accelerated capital allowances £m	Fair value adjustment of infrastructure assets £m	Roll-over relief £m	Financial instruments £m	Pension obligations £m	Share- based payments £m	Net £m
At 1 April 2006	576.1	24.4	0.9	(4.0)	(17.5)	(2.7)	577.2
Charge/ (credit) to income	7.8	(0.3)	-	-	13.8	-	21.3
Charge to equity	-	-	-	4.8	7.7	-	12.5
At 1 April 2007	583.9	24.1	0.9	0.8	4.0	(2.7)	611.0
Charge/ (credit) to income	(30.7)	3.1	0.1	(0.1)	3.2	2.7	(21.7)
Charge/ (credit) to equity	-	-	-	(0.3)	1.8	-	1.5
At 31 March 2008	553.2	27.2	1.0	0.4	9.0	-	590.8

The group has unrecognised capital losses of £11.8m (2007 £11.5m) which are available indefinitely against future eligible capital profits of the group

No deferred tax asset has been recognised on capital losses in the current or prior year as their utilisation is not currently foreseen

20. Pensions

(i) Description of schemes

UK pension scheme

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

Contributions over the year ended 31 March 2008 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The company contributed at 47.5% of members' contributions in respect of the majority of members.

An accrual for unfunded benefits of £3.0m (2007: £2.7m) has been included in the group's accounts at 31 March 2008.

The US scheme, which was previously disclosed, was disposed of with the US regulated business during the year.

(ii) Major assumptions

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Limited, on the basis of annual valuations using the projected unit credit method.

	2008 %	2007 %
Inflation	3.4	3.0
Rate of increase in salaries	4.6	4.2
Rate of increase to pensions in payment and deferred pensions	3.4	3.0
Discount rate for scheme liabilities	6.1	5.3
Life expectancy for a male pensioner aged 60 (in years)	24.9	23.0
Projected life expectancy at age 60 for male aged 40 (in years)	26.0	25.9

(iii) Scheme assets and liabilities

Scheme assets are stated at their bid values at the respective balance sheet dates. To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

	2008		2007	
	Market value	Expected long term rate of return	Market value	Expected long term rate of return
	£m	%	£m	%
Fair value of scheme assets				
Equities	474.7	7.05	493.9	7.15
Bonds	233.8	5.11	233.5	4.71
Property	68.5	7.05	78.9	7.15
Other	13.6	4.30	11.6	4.40
Total value of assets	790.6		817.9	
Present value of scheme liabilities	(763.3)		(810.6)	
Pension asset	27.3		7.3	

The pension plans have not invested in any of the group's own financial instruments nor in properties or other assets used by the group

(iv) Analysis of the amounts included within the financial statements

	2008	2007
	£m	£m
Analysis of amount charged to operating costs		
Current service cost	15.0	15.9
Past service cost	2.0	3.1
Analysis of amount credited to other finance income/costs		
Expected return on pension scheme assets	(52.4)	(45.7)
Interest on pension scheme liabilities	42.6	38.8
Amounts charged to the income statement before taxation	7.2	12.1
Analysis of amounts recognised in statement of group recognised income and expense		
Actual return less expected return on pension scheme assets	(76.3)	2.5
Experience gains and losses arising on the scheme's liabilities	15.3	-
Changes in assumptions underlying the present value of the scheme's liabilities	67.5	23.1
Actuarial gain recognised in the statement of group recognised income and expense	6.5	25.6

The total contributions to the defined benefits plan in the year ending 31 March 2009 are expected to be £16.2m for the group

(v) Reconciliation of opening and closing retirement benefit liabilities and assets

	2008 £m	2007 £m
Movement in liabilities during the year		
Liabilities at beginning of year	(810.6)	(793.8)
Movement in year		
- plan participants' contributions	(3.9)	(4.2)
- current service cost	(15.0)	(15.9)
- interest cost	(42.6)	(38.8)
- past service cost	(2.0)	(3.1)
- benefits paid	26.7	23.7
- actuarial gain	15.3	-
- changes in assumptions	67.5	23.1
Movement in unremitted contributions at the year end	1.3	(1.6)
Pension liabilities at year end	(763.3)	(810.6)
Movement in assets during the year		
Assets beginning of year	817.9	731.7
Movement in year		
- plan participants' contributions	3.9	4.2
- employer contributions	19.4	57.5
- other finance income	52.4	45.7
- actuarial (loss)/gain	(76.3)	2.5
- benefits paid	(26.7)	(23.7)
Pension assets at year end	790.6	817.9

(vi) History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	790.6	817.9	731.7	547.2	499.1
Present value of defined benefit obligation	(763.3)	(810.6)	(793.8)	(627.6)	(587.0)
Surplus/(deficit) in the scheme	27.3	7.3	(62.1)	(80.4)	(87.9)
Experience gains and losses on scheme liabilities	15.3	-	-	6.7	7.3
Experience gains and losses on scheme assets	(76.3)	2.5	110.3	20.0	72.9

IAS 19 requires that the pension schemes are valued using market conditions at the group's year end. This produces a volatile figure for any surplus or deficit as it is largely dependent on stock market values on one particular date. The group's pension liabilities are funded on a long term basis (based on the triennial review of KGPP) rather than the IAS 19 disclosures.

The cumulative amount of actuarial gains recognised since 1 April 2004 in the group statement of recognised income and expense is £49.6m (2007 £43.1m).

(vii) Defined contribution scheme

The company ran two defined contribution schemes for its employees, these were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2008. The total charged to the income statement for the year ended 31 March 2008 was £0.1m (2007 £1.2m).

21. Authorised and issued share capital

	2008 Number	2008 Nominal value £	2007 Number	2007 Nominal value £
Authorised				
Ordinary shares of 20 2/9p (2007 15 5/9p) each	626,457,890	126,683,707	814,395,257	126,683,707
B shares of 1p each	360,000,000	3,600,000	-	-
Allotted, called up and fully paid				
Ordinary shares of 20 2/9p (2007 15 5/9p) each	275,788,770	55,770,617	358,525,396	55,770,617
B shares of 1p each	5,167,670	51,677	-	-

	Number of ordinary shares	15 5/9p shares £	20 2/9p shares £	Number of B shares £	1p shares
Authorised share capital					
Opening balance as at 1 April 2006 and 1 April 2007	814,395,257	126,683,707	-	-	-
Changes to authorised share capital limits	(187,937,367)	(126,683,707)	126,683,707	360,000,000	3,600,000
Closing balance as at 31 March 2008					
	626,457,890	-	126,683,707	360,000,000	3,600,000
Issued share capital					
Opening balance as at 1 April 2006	366,370,396	56,990,950	-	-	-
Share buy-back	(7,845,000)	(1,220,333)	-	-	-
Opening balance as at 1 April 2007					
Issue of shares	5	1	-	-	-
Issue of new 20 2/9p shares	(82,736,631)	(55,770,618)	55,770,617	358,525,401	3,585,254
Cancellation of B shares	-	-	-	(353,357,731)	(3,533,577)
Closing balance as at 31 March 2008					
	275,788,770	-	55,770,617	5,167,670	51,677

During the year, a capital return to shareholders was made by way of a B share scheme totalling £742.1m. Of that, £479.3m was initial dividend payments and £262.8m was share redemption. The B shares which received the initial dividend were subsequently converted into deferred shares, redeemed at the close of business on 2 July 2007 for a total aggregate consideration of 1 penny and then cancelled. At 31 March 2008, £51,677 of the capital return via the scheme was outstanding and held in share capital.

In addition, there was a consolidation of the ordinary shares of the company, whereby for every 13 existing ordinary shares of 15 5/9p each held on 18 June 2007, shareholders received 10 new ordinary shares of 20 2/9p each. As a result, the number of ordinary shares in issue was reduced by 82,736,631.

In February 2008, the share capital of the company was purchased by Saltaire Water Limited for 1090p per share

Movements in the prior year related to the completion of a share buy back scheme continued from the previous year. During 2007, 7,845,000 ordinary shares of 15 5/9p were bought back for cancellation

Employee Share Ownership Trust

The group has an ESOT which is used to administer the issue of shares to employees and directors under the company's 'Sharesave' save-as-you-earn share option scheme and the long term incentive plan (LTIP). The ESOT is a trust funded by interest free loans from the company. All the administration costs of the trust are written off to the income statement as they accrue. The trust holds 530,808 shares at 31 March 2008 (2,066,306 at 31 March 2007)

Options granted and outstanding at 31 March 2008

	Date of grant	2008 Number of shares	2007 Number of shares	Option price	Normal exercise date
Sharesave schemes					
Three year schemes	10-Jan-03	-	-	320 Op	Mar-Aug 2006
	09-Jan-04	-	39,984	366 Op	Mar-Aug 2007
	07-Jan-05	131,009	372,116	461 Op	Mar-Aug 2008
	30-Dec-05	301,161	428,689	588 Op	Mar-Aug 2009
	28-Dec-06	257,430	346,848	741 Op	Mar-Aug 2010
Five year schemes	05-Jan-01	-	-	299 Op	Mar-Aug 2006
	04-Jan-02	-	12,374	275 Op	Mar-Aug 2007
	10-Jan-03	166,378	436,060	320 Op	Mar-Aug 2008
	09-Jan-04	190,616	257,632	366 Op	Mar-Aug 2009
	07-Jan-05	311,410	361,420	461 Op	Mar-Aug 2010
	30-Dec-05	235,458	277,870	588 Op	Mar-Aug 2011
	28-Dec-06	146,596	177,172	741 Op	Mar-Aug 2012

22. Reconciliation of group movements in equity

	Issued capital £m	Share premium £m	Capital redemptio n reserve £m	Investme nt in own shares £m	Hedging reserve £m	Translatio n reserve £m	Share- based payment reserve £m	Retained earnings £m	Total £m
At 1 April 2006	57.0	16.7	146.7	(9.8)	(9.4)	10.6	3.3	1,241.9	1,457.0
Transfer from the income statement	-	-	-	-	-	-	-	151.3	151.3
Share buy back	(1.2)	-	1.2	-	-	-	-	(59.3)	(59.3)
Dividends approved and paid	-	-	-	-	-	-	-	(109.7)	(109.7)
Treasury shares disposed of through vesting of share schemes	-	-	-	3.1	-	-	(0.8)	-	2.3
Tax on items taken directly to equity	-	-	-	-	-	-	0.1	-	0.1
Share based payment charge	-	-	-	-	-	-	1.9	-	1.9
Total included in the group statement of recognised income and expenditure	-	-	-	-	11.3	(7.9)	-	15.5	18.9
At 1 April 2007	55.8	16.7	147.9	(6.7)	1.9	2.7	4.5	1,239.7	1,462.5
Transfer from the income statement	-	-	-	-	-	-	-	186.2	186.2
Dividends approved and paid	-	-	-	-	-	-	-	(111.3)	(111.3)
B share payments	-	-	-	-	-	-	-	(742.1)	(742.1)
B shares redeemed	0.1	(3.6)	3.5	-	-	-	-	-	-
Treasury shares disposed of through vesting of share schemes	-	-	-	6.1	-	-	(0.7)	-	5.4
Gains/(losses) on cash flow hedges	-	-	-	-	-	-	-	-	-
Tax on items taken directly to equity	-	-	-	-	-	-	(1.3)	-	(1.3)
Share based payment charge	-	-	-	-	-	-	1.6	-	1.6
Recycling of translation reserves	-	-	-	-	-	(1.2)	-	1.2	-
Total included in the group statement of recognised income and expenditure	-	-	-	-	(0.9)	(1.5)	-	1.4	(1.0)
At 31 March 2008	55.9	13.1	151.4	(0.6)	1.0	-	4.1	575.1	800.0

23. Financial instruments

Treasury policy is described in the financial review on page 12. The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

(a) Interest rate risk profile of financial assets and liabilities

The interest rate risk profile of the group's financial assets and liabilities at 31 March was as follows:

Year ended 31 March 2008

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	24.7	25.0	27.1	43.0	41.0	218.7	379.5
6.625% guaranteed bonds 2031	-	-	-	-	-	240.3	240.3
6.875% guaranteed bonds 2010	-	-	199.6	-	-	-	199.6
5.375% guaranteed bonds 2023	-	-	-	-	-	196.4	196.4
5.5% guaranteed bonds 2027	-	-	-	-	-	148.7	148.7
5.125% guaranteed bonds 2037	-	-	-	-	-	194.5	194.5
Other loans	-	-	-	-	-	1.7	1.7
Finance lease swaps	0.2	1.7	(1.7)	(0.5)	-	5.2	4.9
	24.9	26.7	225.0	42.5	41.0	1,005.5	1,365.6
Floating rate							
Short term loan	139.8	-	-	-	-	-	139.8
3.048% index linked guaranteed bond 2033	-	-	-	-	-	116.6	116.6
1.462% index linked guaranteed bond 2051	-	-	-	-	-	131.3	131.3
1.46% index linked guaranteed bond 2056	-	-	-	-	-	131.2	131.2
1.8225% index linked guaranteed bonds 2050	-	-	-	-	-	66.2	66.2
1.75756% index linked guaranteed bonds 2054	-	-	-	-	-	86.7	86.7
1.7085% index linked guaranteed bonds 2058	-	-	-	-	-	101.8	101.8
Finance leases	5.8	6.0	4.3	4.6	4.9	375.7	401.3
	145.6	6.0	4.3	4.6	4.9	1,009.5	1,174.9
Financial assets							
Floating rate							
Cash and short term deposits	(10.1)	-	-	-	-	-	(10.1)
Loans to associates/joint ventures	(20.6)	-	-	-	-	-	(20.6)
	(30.7)	-	-	-	-	-	(30.7)

Year ended 31 March 2007

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	14 5	24 7	25 0	27 1	43 0	259 7	394 0
6 625% guaranteed bonds 2031	-	-	-	-	-	240 2	240 2
6 875% guaranteed bonds 2010	-	-	-	199 5	-	-	199 5
5 375% guaranteed bonds 2023	-	-	-	-	-	196 3	196 3
Other loans	-	-	-	0 9	-	130 6	131 5
Preference shares	0 6	-	-	-	-	-	0 6
Finance lease swaps	-	0 5	1 6	(4 1)	(2 3)	4 8	0 5
	15 1	25 2	26 6	223 4	40 7	831 6	1,162 6
Floating rate							
Short term loan	293 7	-	-	-	-	-	293 7
3 048% index linked guaranteed bond 2033	-	-	-	-	-	111 6	111 6
1 462% index linked guaranteed bond 2051	-	-	-	-	-	127 1	127 1
1 46% index linked guaranteed bond 2056	-	-	-	-	-	127 1	127 1
Other loans	-	-	2 0	-	-	-	2 0
Finance leases	5 9	6 4	6 8	7 3	7 8	357 9	392 1
	299 6	6 4	8 8	7 3	7 8	723 7	1,053 6
Financial assets							
Floating rate							
Cash and short term deposits	(111 4)	-	-	-	-	-	(111 4)
Loans to associates/joint ventures	(21 2)	-	-	-	-	-	(21 2)
	(132 6)	-	-	-	-	-	(132 6)

(b) Financial risks

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide benefits to stakeholders and returns to shareholders and to maintain an optimal capital structure. In order to do this, the group will consider the amount of debt and assets held and their liquidity.

When monitoring capital risk, the group considers its gearing and the ratio of net debt to Regulatory Capital Value (RCV). Both are discussed in the Financial Review on page 11.

Centrally managed funds are invested entirely with counterparties whose credit rating is 'A-' or better.

Maximum exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Credit risk

The group has some exposure to credit risk through the holding of debtors on the year end balance sheet. These can be split into main charges debtors and other trade debtors.

Risks associated with main charges debtors include limits on the group's ability to restrict supply. However, this does not apply to all debtors. The credit risk is mitigated by introducing payment plans, providing advice and support to customers where this is viable and where it is considered necessary, using legal procedures to reclaim outstanding debts.

Risks associated with other trade debtors are mitigated by credit checks performed on customers before they are supplied, the cessation of supply to customers who are a high credit risk and payment in advance where this is deemed necessary.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by group's management based on prior experience and their assessment of the current economic environment.

The Group's objective is to minimise the risk by minimising the amount of overdue debt at any time. The Group manages the risk by timely review of the ageing profile and employing specific staff to monitor and collect these debts. The risk is measured by monitoring of overdue debtors.

In respect of credit risk arising from the other financial assets of the Group, which comprise cash, investments in the equity of other companies such as joint ventures and other debtors, the Group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

(c) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the book values and the fair values of the group's financial assets and liabilities, including those classified under discontinued operations, at 31 March

	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair Value £m
Primary financial instruments financing the group's operations				
Financial assets				
Cash and short term deposits	(10.1)	(10.1)	(111.4)	(111.4)
Loans to associates/joint ventures	(20.6)	(20.6)	(21.2)	(21.2)
Financial liabilities				
Short term loans	139.8	139.8	293.7	293.7
Fixed rate interest rate swaps in respect of finance leases	4.9	4.9	0.5	0.5
Fixed rate bank loans	379.5	380.8	394.0	383.3
Fixed rate sterling bonds	979.5	954.1	636.0	681.9
Floating rate sterling bonds	633.8	516.4	365.8	370.4
US loans	-	-	131.5	131.5
Finance leases	401.3	401.3	392.1	392.1
Preference shares	-	-	0.6	0.6
Other loans	1.7	1.7	2.0	2.0

The fair values for all financial instruments have been calculated either by discounting the expected future cash flows at interest rates prevailing for a comparable maturity period for each instrument or by reference to market values for similar instruments

(d) Hedges

The group's policy is to hedge interest rate risk within approved board policies and guidelines

Interest rate swaps are used to manage interest rate exposure under a policy that requires between 65% and 75% of Yorkshire Water's and Kelda's net debt to be held at fixed rates. At the financial year end the proportions were 67% and 68% respectively

Hedging of interest due under finance leases

Yorkshire Water has a number of finance leases with a number of counterparties lasting from inception for periods up to 32 years. In each instance interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. Yorkshire Water is therefore exposed to changes in 12 month LIBOR which could have a material effect on interest costs from year to year and over time. In order to fix the interest cost on a proportion of its net debt, Yorkshire Water has entered into a number of floating to fixed rate interest rate swaps

The hedging instrument is a perfect cash flow hedge against changes in 12 month LIBOR for the period of the swaps agreement because the dates of interest payments under the swaps are the same as the dates on which interest is due per the leasing agreements and the nominal value of the swaps that hedge the cost total less than the nominal lease values outstanding

The fair value of the hedging instrument at 31 March 2008 was a £4.9m unrealised loss (2007 £0.5m loss)

The cash flow hedge was assessed to be highly effective at 31 March 2008 and an unrealised gain of £0.9m (2007 £11.3m loss) relating to the hedging instrument was included in equity (net of deferred tax)

24. Share based payments

Share options

In prior years, the group operated a savings related share option scheme under which options were granted to employees. During the year, the scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity with members having the option 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.

The employee share option plans were open to all qualifying employees and provided for an exercise price equal to the daily average market price on the date of grant less 20%. The options previously vested if the employee remains in service for the full duration of the option scheme (either three or five years), but the choice to vest on takeover was available to all option holders.

	2008	2008	2007	2007
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at the beginning of the period	2,710,165	5.36	2,988,328	4.50
Granted during the year	-	-	528,211	7.41
Lapsed during the year	(238,015)	6.01	(121,478)	4.77
Exercised during the year	(732,092)	4.22	(684,896)	3.29
Outstanding at the end of the period	1,740,058	5.76	2,710,165	5.36
Of which exercisable at the end of the period	297,387	3.82	52,358	3.45

The weighted average share price at the date of exercise for share options exercised during the year was £10.78p (2007: £8.56p). The weighted average of the fair value of the share options was £5.10p (2007: £4.71p).

The options outstanding at 31 March 2008 had a weighted average exercise price of £5.76p (2007: £5.36p), and a weighted average remaining contractual life of 2.1 years (2007: 2.3 years).

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. There were no shares granted in 2008. The inputs into the Black Scholes model for 2007 were as follows:

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

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous 6 years

Long-term incentive plan (LTIP)

In previous years, the group ran a Long Term Incentive Plan. Awards under the plan had 2 separate vesting conditions, both of which were dependent on market-based conditions. In the current year, the plan was closed following the acquisition of Kelda Group plc by Saltaire Water Limited, with vesting following the plan rules, as noted below.

70% of the full value of the LTIPs will vest based on the company's total shareholder return (TSR) performance over the performance period (three years). The group's share performance will be compared to that of six other UK water companies. At the end of the performance period the TSR of all seven companies will be calculated, and the results ranked. Of the 70%, 100% will vest if the group is ranked first, 60% if the group is ranked second, and 20% if the company is ranked third. Otherwise none of the 70% will vest.

For the remaining 30%, the group's TSR will 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.

	LTIPs	Weighted average fair value £	LTIPs	Weighted average fair value £
Outstanding at the beginning of the period	732,372	2.27	971,271	2.64
Granted during the year	205,473	3.50	204,896	2.78
Lapsed during the year	(584,430)	2.73	(253,999)	3.25
Vested during the year	(353,415)	2.28	(189,796)	3.38
Outstanding at the end of the period	-	-	732,372	2.27

The weighted average of the fair value of the LTIPs was £2.51p (2007 £2.26p)

25. Additional cash flow information

Analysis of movement in net debt	At 1 April 2006 £m	Cash movement £m	Fair value and other non-cash movements £m	At 31 March 2007 £m	Cash movement £m	At 31 March 2008 £m
Cash and cash equivalents	79 5	22 5		102 0	(91 9)	10 1
Financial assets	27 8	-	(27 8)	-	-	-
	107 3	22 5	(27 8)	102 0	(91 9)	10 1
Debt due within one year	(447 7)	111 7	27 8	(308 2)	143 7	(164 5)
Finance leases due within one year	(7 9)	2 0	-	(5 9)	0 1	(5 8)
	(455 6)	113 7	27 8	(314 1)	143 8	(170 3)
Debt due after one year	(1,040 3)	(356 8)	13 8	(1,383 3)	(586 5)	(1,969 8)
Finance leases due after one year	(446 5)	60 3	-	(386 2)	(9 3)	(395 5)
	(1,486 8)	(296 5)	13 8	(1,769 5)	(595 8)	(2,365 3)
Net debt relating to continuing activities	(1,835 1)	(160 3)	13 8	(1,981 6)	(543 9)	(2,525 5)
Net debt relating to discontinued discontinued	(118 5)	(4 2)	-	(122 7)	123 2	0 5
Total net debt	(1,953 6)	(164 5)	13 8	(2,104 3)	(420 7)	(2,525 0)

Net debt does not include financial liabilities which are not considered to be part of the group's borrowings.

Cash generated by continuing operations as noted in the group cashflow statement can be derived as follows

	2008 £m	2007 £m
Profit for the year from continuing operations before taxation	227 9	241 4
Share of associates' and joint ventures' profit after tax	(0 7)	(0 2)
Investment income	(61 1)	(64 1)
Finance costs	182 3	161 1
Depreciation	156 3	140 9
Amortisation of grants and contributions	(3 2)	(3 2)
Exchange rate adjustments	(1 5)	43 0
(Increase)/decrease in inventories	(0 3)	(0 1)
(Increase)/decrease in trade and other receivables	(20 5)	8 3
(Decrease)/increase in trade and other payables	34 5	(8 3)
Pension contributions in excess of operating costs	(3 7)	(36 9)
Movements in provisions	(0 1)	2 6
Other movements	(1 3)	4 9
Cash generated by continuing operations	508 6	489 4

26. Commitments

	2008 £m	2007 £m
Contracts placed at 31 March	349.4	345.5

The long term investment programme for the UK regulated water services business, which is expected to identify substantial future capital expenditure commitments in the period 1 April 2005 to 31 March 2010, was agreed as part of the Periodic Review process finalised in December 2004

At 31 March, group companies were committed to making the following payments under non cancellable operating leases as set out below

The group has entered into commercial leases on certain property, motor vehicles and items of machinery. These leases have an average duration of between 3 and 10 years. There are no restrictions placed on the group by entering into the leases

Future minimum rentals payable under non-cancellable operating leases are as follows

	2008 Land and buildings £m	2008 Other £m	2007 Land and buildings £m	2007 Other £m
Within one year	0.3	2.4	0.3	2.1
Between two and five years	1.6	1.8	0.5	1.6
Over 5 years	0.1	-	0.1	-
	2.0	4.2	0.9	3.7

27. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders. These loans are included in investments analysed in note 13

	Sales to related parties		Debtors balance with related parties		Loans to/(from) related parties	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Joint ventures						
Aberdeen Environmental Services (Holdings) Limited	5.4	5.1	0.1	0.9	0.6	0.5
Brey Utilities Limited	-	-	-	-	13.7	15.3
Brey Services Limited	6.1	6.1	5.3	3.4	-	-
Dalriada Water Ltd	0.8	-	0.3	-	-	-
Associates						
KeyLandmark Limited	-	-	-	-	2.7	2.4
Whitehall Landing Limited	-	-	-	-	(0.3)	(0.3)
Whinmoor Limited	-	-	-	-	0.1	0.1
Keyland Gregory Limited	-	-	-	-	3.6	2.5
KeyLand Gregory (Retail) Limited	-	-	-	-	0.2	0.7
	12.3	11.2	5.7	4.3	20.6	21.2

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £2.2m (2007: £2.0m). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the years ended 31 March 2008 and 2007 the group has not made any provision for doubtful debts relating to amounts owed by related parties.

Kelda Group Limited had expenditure with Saltaire Water Limited of £100,000 within the year. It has an £80,000 debtor and £106,000 creditor outstanding with Saltaire Water Limited at 31 March 2008. There were no transactions or balances in the prior year.

There were no other material transactions between the group and its associated undertakings and joint ventures during the year.

Compensation of key management personnel (including directors)

	2008 £m	2007 £m
Short-term benefits	3.7	2.8
Post-employment benefits	0.4	0.4
Termination payments	0.5	0.2
Share-based payments	1.1	0.8
	5.7	4.2

28. Ultimate parent company

The company's immediate parent company is Saltaire Water Limited. The company's ultimate parent company and controlling party is Skeldergate Topco Limited, a company registered in Jersey. No consolidated accounts are required for any company above Kelda Group Limited for the period ended 31 March 2008.

Group companies

Principal subsidiary companies	Country of incorporation	Class of shares in issue	Proportion of class of share held
Water services			
Yorkshire Water Services Limited*	England & Wales	Ordinary	100%
Delta Water Services Limited	England & Wales	Ordinary	100%
Grampian Wastewater Services Limited	Scotland	Ordinary	100%
Kelda Water Services Limited*	England & Wales	Ordinary	100%
Kelda Water Services (Wales) Limited	England & Wales	Ordinary	100%
Other activities			
KeyLand Developments Limited*	England & Wales	Ordinary	100%
KeyLand Investment Properties Limited	England & Wales	Ordinary	100%
Loop Customer Management Limited*	England & Wales	Ordinary	100%
Holding and finance companies			
Featurepack Limited*	England & Wales	Ordinary	100%
Kelda Group Inc	US	Ordinary	100%
Yorkshire Water Services Finance Plc	England & Wales	Ordinary	100%
Principal associated undertakings and joint ventures	Country of incorporation	Class of shares in issue	Proportion of class of share held
Aberdeen Environmental Services (Holdings) Limited	Scotland	Ordinary 'A'	Nil
	Scotland	Ordinary 'B'	100%
	Scotland	Ordinary 'C'	Nil
Brey Utilities Limited	England & Wales	Ordinary 'A'	100%
	England & Wales	Ordinary 'B'	Nil
	England & Wales	Ordinary 'C'	Nil
Brey Services Limited	England & Wales	Ordinary 'A'	100%
	England & Wales	Ordinary 'B'	Nil
	England & Wales	Ordinary 'C'	Nil
Dalriada Water Services Limited	Northern Ireland	Ordinary 'A'	Nil
	Northern Ireland	Ordinary 'B'	100%

* Shares held by parent company

Independent auditors' report to the members of Kelda Group Limited

We have audited the financial statements of Kelda Group Limited for the year ended 31 March 2008 which comprise 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

The maintenance and integrity of the Kelda Group Limited 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 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 2008 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
7 July 2008

Company balance sheet

At 31 March 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	4	1,456.7	2,459.8
Current assets			
Debtors	5	36.3	59.9
Cash at bank and in hand		4.7	95.7
		41.0	155.6
Creditors amounts falling due within one year			
Short term borrowings	7	-	(293.6)
Other creditors	6	(287.9)	(351.3)
Net current liabilities		(246.9)	(489.3)
Total assets less current liabilities		1,209.8	1,970.5
Creditors amounts falling due after more than one year			
Long term borrowings	7	(439.9)	(439.7)
Net assets		769.9	1,530.8
Capital and reserves			
Called up share capital	12	55.9	55.8
Share premium account	8	13.1	16.7
Other reserves			
Capital redemption reserve	8	151.4	147.9
Reserve for own shares	8	(0.6)	(6.7)
Share-based payment reserve	8	5.8	4.9
Profit and loss account	8	544.3	1,312.2
Equity shareholders' funds	9	769.9	1,530.8

Approved by the board of directors on 7 July 2008 and signed on their behalf by



Allison Bainbridge, Group Finance Director

Notes to the company accounts

1. Accounting policies

Basis of accounting

The company's financial statements are prepared under the historical cost convention, modified to include revaluation of all financial instruments as described below, in accordance with applicable United Kingdom accounting standards (UK GAAP)

The accounting policies of the Company have been consistently applied over both the current and preceding period. The going concern basis has been applied in these accounts.

Foreign currencies

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

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write-off the cost which represents the purchase price, less estimated residual value, of each asset evenly over its expected useful life.

Useful economic lives are principally as follows:

Plant and equipment

Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable

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 irrecoverable amounts. There is no intention to trade the debtors. Trade creditors are not interest bearing and are stated at their nominal value

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs

Derivative financial instruments

The company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability and unrecognised firm commitments, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction

In relation to cash flow hedges to hedge highly probable forecasted transactions which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss

When the hedged highly probably forecasted transaction results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The directors have taken advantage of the exemption in FRS25 and have excluded disclosures relating to financial instruments from the financial statements on the basis that the financial instruments of the company are included within the consolidated financial statements of the group.

Pensions

The company's employees participate in a number of group defined benefit schemes as described in note 21 in the consolidated financial statements. 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. Details of the defined benefit schemes of the group (accounted for in accordance with group's accounting policies) can be found in note 21 of the consolidated financial statements.

Share based payment

In prior years, the group 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 year, the scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. 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 Long Term Incentive Plan. 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 current year, the plan was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. Any vesting which occurred as a result of the takeover has been dealt with in the same way as in previous years.

Reserve for own shares

The company has an employee share trust (ESOT) for the granting of company shares to executives and senior employees. Shares in the company held by the employee share trust are treated as reserve for own shares and presented in the balance sheet as a deduction from equity.

The finance costs and administration costs relating to the ESOT are charged to the profit and loss account. Dividends earned on shares held in the Trust have been waived. The shares are ignored for the purposes of calculating the company's earnings per share.

Corresponding amounts

The Company complies with FRS28 "Corresponding amounts". FRS 28 sets out the requirements for the disclosure of corresponding amounts for items shown in an entity's primary financial statements and the notes to the financial statements.

Dividends receivable

Dividends receivable are recognised when the shareholders' right to receive the revenue is established.

Dividends payable

Interim dividends payable are recognised on payment of the dividend. Final dividends payable are recognised on approval by shareholders in the annual general meeting.

2. Profit attributable to company

The profit of the company was £85.5m (2007: £829.8m). Advantage has been taken of the exemption available under section 230 of the Companies Act 1985 not to present a profit and loss account for the company alone. The company profit and loss account was approved by the board on 7 July 2008.

3. Tangible fixed assets

The assets of the company comprise plant and equipment. At 1 April 2007 and 31 March 2008, both the cost and accumulated depreciation of the fixed assets was £0.4m, leaving a net book value of £nil.

The company does not have any assets held under finance leases.

4. Investments

	Shares in group undertakings £m	Loans to group undertakings £m	Total investments in group undertakings £m
Cost			
At 1 April 2007	935.4	1,524.4	2,459.8
Decrease in funding	-	(1,003.3)	(1,003.3)
Other movements	0.2	-	0.2
At 31 March 2008	935.6	521.1	1,456.7

A list of the major subsidiaries of the company can be found on page 93.

5. Debtors

	2008 £m	2007 £m
Amounts owed by subsidiary undertakings	34.4	34.3
Prepayments and accrued income	0.1	1.4
Deferred tax asset	0.3	0.3
Tax debtor	-	22.7
Other debtors	1.5	1.2
	36.3	59.9

All debtors fall due within one year.

Deferred tax asset

	£m
At 31 March 2007 and 31 March 2008	0.3

Deferred tax in the company is in relation to a short-term timing difference. Deferred tax assets are recognised to the extent that it is probable that suitable taxable profit will be available against which the deductible timing differences can be utilised.

6. Other creditors

	2008 £m	2007 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	250.1	317.6
Other creditors	37.8	33.7
	287.9	351.3

Amounts owed to subsidiary undertakings are repayable on demand and bear interest at commercial rates.

7. Borrowings**Short term borrowings**

	2008 £m	2007 £m
Bank loans	-	293.6

Long term borrowings

6.625% bond 2031	240.3	240.2
6.875% guaranteed bonds 2010	199.6	199.5
	439.9	439.7

Long term borrowings are repayable as follows:

In more than one year but not more than two years	-	-
In more than two years but not more than five years	199.6	199.5
After more than five years	240.3	240.2
	439.9	439.7

6.625% bond 2031

The bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

6.875% guaranteed bond 2010

The bonds are repayable in one sum on 23 April 2010. Interest is charged at 6.875%.

These bonds are guaranteed by Yorkshire Water Services Limited

8. Movement on reserves

	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	Share-based payment reserve £m	Profit and loss account £m
Shareholders' funds at 1 April 2006	16.7	146.7	(9.8)	3.8	651.4
Profit for the year	-	-	-	-	829.8
Share buy back	-	1.2	-	-	(59.3)
Dividends approved and paid	-	-	-	-	(109.7)
Treasury shares disposed of through vesting of share schemes	-	-	3.1	(0.8)	-
Share-based payment charges	-	-	-	1.9	-
Shareholders' funds at 1 April 2007	16.7	147.9	(6.7)	4.9	1,312.2
Profit for the year	-	-	-	-	85.5
Dividends approved and paid	-	-	-	-	(111.3)
B Share Payments	-	-	-	-	(742.1)
B Shares Redeemed	(3.6)	3.5	-	-	-
Treasury shares disposed of through vesting of share schemes	-	-	6.1	(0.7)	-
Share-based payment charges	-	-	-	1.6	-
Closing shareholders' funds at 31 March 2008	13.1	151.4	(0.6)	5.8	544.3

Of the £544.3m (2007 £1,312.2m) profit and loss reserve, £500.1m (2007 £1,199.4m) is distributable and £44.2m (2007 £112.8m) is non distributable

Investments in own shares consists of 530,808 (2007 2,066,306) ordinary shares of the company with a nominal value of £0.1m (2007 £0.3m) at 20 2/9p (2007 15 5/9p) per share which are held in ESOT. The market value of the shares held by the ESOT at 31 March 2007 was £5.8m (2007: £19.4m) (net book value £0.6m (2007 £6.7m))

9. Reconciliation of movement in shareholders' funds

	2008 £m	2007 £m
Shareholders' funds at 1 April	1,530.8	865.8
Profit attributable to shareholders	85.5	829.8
Share buy back	-	(59.3)
Dividends approved and paid	(111.3)	(109.7)
B share payments	(742.1)	-
Treasury shares disposed of through vesting of share schemes	5.4	2.3
Share-based payment charges	1.6	1.9
Shareholders' funds at 31 March	769.9	1,530.8

10. Share based payments

Details of share-based payments schemes operated by the company are disclosed in note 24 of the group accounts. The charge for share based payments was £0.1m (2007: £0.1m)

11. Directors and employees

	2008	2007
	£m	£m
Wages and salaries	2.5	2.1
Social security contributions	0.4	0.2
Other pension costs	0.4	0.4
	3.3	2.7

On average the company had 32 employees during the year ending 31 March 2008 (2007: 25)

Details of directors' emoluments are set out in the directors' remuneration report. No elements related specifically to their work in the company.

12. Other information

Disclosure notes relating to called up share capital, share re-purchases, auditors' remuneration and financial instruments are included within the financial statements of the group.

The company has guaranteed certain subsidiary undertakings' borrowings of £782.6m (2007: £789.8m)

The company has taken advantage of the exemption granted by paragraph 3c of FRS8, not to disclose transactions with other group companies.

13. Ultimate parent company

The company's immediate parent company is Saltaire Water Limited. The company's ultimate parent company and controlling party is Skeldergate Topco Limited, a company registered in Jersey.