

**YORKSHIRE WATER SERVICES LIMITED**

**ANNUAL REPORT AND ACCOUNTS**

For the year ended  
31 March 2005

Registered Number: 2366682



## ANNUAL REPORT AND ACCOUNTS 2005

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## **OPERATING REVIEW**

### **Financial performance**

Turnover increased by 6.0% to £649.4m (2004: £612.7m) as a result of the second year of price increases allowed in the interim price determination which took place in April 2003.

Operating profit (before exceptionals) increased by 12.8% to £282.8m (2004: £250.8m) of which 52% (2004: 49%) accrued in the second half year. This performance reflects continuous improvement from the business which has delivered £120m of operating cost out-performance for the 2000-05 period. Exceptional items of £5.8m relate to business reorganisation costs required to deliver further measured initiatives on cost reduction.

Regulated capital investment for the year was £349.2m (2004: £302.3m). The investment continues to be directed at the upgrading of the region's clean and waste water infrastructure. Over AMP 3, Yorkshire Water Services Limited delivered 13% capital cost out-performance.

### **Operational performance**

In January 2005, Ofwat announced that Yorkshire Water Services Limited had become the first water and sewerage company ever to achieve 'A' ratings in each of the four available categories for relative efficiency, namely operating and capital cost efficiency in both water and waste water.

Ofwat's Unit Costs and Efficiency Report 2003/04 compared all 22 water and sewerage companies on the basis of how efficiently they ran their businesses and how efficiently they spent money on the maintenance of pipes, sewers and treatment works. The report acknowledged Yorkshire Water Services Limited's industry leading performance which the regulator said had been taken into consideration during the recent price review, ensuring increases in customers' bills could be kept to a minimum.

The outcome of Ofwat's recent price review was announced in December 2004 and has been accepted by the company.

The final determination was very similar to Yorkshire Water Services Limited's business plan submission, with customers' bills set to rise by an average of 3.9% per year above inflation over the period 2005-2010. This will result in average household bills rising by £45 to £288 (excluding inflation) over the next five years.

The increases will help finance a £1.6 billion programme of investment to further improve drinking water and river water quality and to significantly reduce the number of incidents of sewer flooding.

### **Customer service**

Yorkshire Water Services Limited was named Utility Company of the Year at the Utility Industry Achievement Awards 2004, against competition from some of the biggest names in the water, gas, electricity and telecommunications industries.

The company continued to improve its overall levels of operational and customer service during 2004 and recorded its highest ever points score in Ofwat's Overall Performance Assessment. We were ranked fourth in the industry.

The quality of Yorkshire's tap water had reached an all-time high, with 99.89% of Overall Performance Indicator tests taken during the previous year reaching the required standards.

Throughout the year the company continued its ongoing programme of work to upgrade the region's 31,217km of underground water mains, with major renewal schemes underway in towns and cities such as Bradford, Scarborough, Huddersfield and Hull.

### **Environmental performance**

Progress has been made over the past 12 months to improve the condition of Sites of Special Scientific Interest (SSSIs) on Yorkshire Water Services Limited land. 20% are now in recovering or better status, compared to 10% in 2003.

In September 2004, Yorkshire Water Services Limited and the Ramblers' Association staged a joint celebration to mark the official introduction of new access rights for walkers in the South Pennines.

Under the terms of the Countryside and Rights of Way Act 2000, walkers were given the right to roam across large areas of moorland, heath and down in the area for the first time.

Kelda once again achieved 'Premier League' status in Business in the Environment's Index of Corporate Environmental Engagement 2004.

### **Social impact**

Yorkshire Water Services Limited was ranked 43<sup>rd</sup> in Business in the Community's 'Companies That Count' report published in March 2004, a rise of 43 places on the previous year.

The report looks at corporate social responsibility and benchmarks companies' performance on a range of social, ethical and environmental issues. We will continue to use our participation in the index as a means of improving the way we do business and staying abreast of best practice.

In assessing the company's approach to CSR, Business in the Community recognised the success of the company's Cool Schools campaign which has seen the installation of 700 free water coolers in local primary schools across the region.

### **Employees**

A major review of the company's performance management process was undertaken during 2004.

A joint proposal was developed which was put to a union ballot and accepted by the overwhelming majority of employees in February 2005.

Under the terms of the five-year agreement, all employees are now guaranteed an annual 'cost of living' increase, with the potential for additional payments based on company and personal performance.

In October 2004, the company also unveiled its new vision - to be clearly the best water company in the UK - and launched a series of new aspirational targets for the company to aim for over the period 2005 - 2010.

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2005**

The Directors present their report for the year to 31 March 2005.

### **Financial Results for the year**

Profit on ordinary activities was £164.4m.

### **Share Capital**

There has been no change during the year to the company's issued share capital of £775 million in shares of £1 each fully paid, all of which is held by Kelda Group plc.

### **Principal Activities**

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

### **Directors**

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

John Napier	Chairman
Kevin Whiteman	Managing Director
Richard Ackroyd	
Allison Bainbridge	
Richard Flint	
Graham Dixon	
Alan Harrison	
Michael Smith	
Paul Wynn	

### Non-executive Directors

Elizabeth Kerry  
Derek F Roberts  
Christopher Fisher

Derek F Roberts retired as a director on 19 October 2004. Christopher Fisher was appointed as a director on 19 October 2004. Paul Wynn resigned on 1 January 2005. All other directors held office at 1 April 2004 and throughout the year. Additional information relating to directors who served during the year, including interests in shares, is disclosed in Note 5 of the accounts.

## **Dividends**

The total dividend for the year payable to the parent company, Kelda Group plc, of £105.7m comprises the following:

	<b>£m</b>
Interim Dividend	30.9
Proposed Final Dividend	<u>74.8</u>
Total Dividend for the year	<u>105.7</u>

The company's dividend policy is to deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits.

The directors believe that the dividends payable for the year are in accordance with these principles.

## **Reserves**

An amount of £58.7m has been transferred to reserves, bringing the balance held in reserve to £896.1m.

## **Research & Development**

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2004/05 £3.6m was committed to research and development including £2.7m on fixed assets.

## **Fixed Assets**

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

Movements in fixed assets are shown in Notes 10-12 to the accounts and include transfers to KeyLand Developments Limited, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by the Office of Water Services. With effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by the Office of Water Services.

## **Capital and Infrastructure Renewals Expenditure**

Total expenditure on regulated activities during the year amounted to £349.2m.

## **Payment of Suppliers**

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

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 43 days.

## **Instrument of Appointment**

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory accounts. This additional information is included on pages 33 to 57. Further copies of these statements can be obtained, free of charge, by writing to Kelda Group plc, Company Secretary's Department, Western House, Halifax Road, Bradford, BD6 2SZ.

## **Employees and employment policies**

The company strives to create a positive working environment for its employees. The company is committed to increasing employee involvement and places great emphasis on open two way communications. There is an extensive consultation and communication process with employees and trade unions to keep employees informed and involved. Employees have opportunities to express their views including regular face to face sessions with senior management and are kept informed via regular briefings and in-house publications.

The company's employment policies go well beyond current legal requirements. The company recognises that work/life balance is a key factor and offers a range of part time working opportunities, flexible working for some jobs, and a formal jobshare policy. Employees also have the opportunity to acquire a direct stake in the success of business through a sharesave scheme which has been operating since 1989.

The company is committed to treating job applicants and employees in the same way, regardless of their ethnic origin, gender, disability, race, colour, religion, sexual orientation or age. An active approach to keeping employees who become disabled in employment, and a commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK employment service.

The company's approach to equal opportunities and diversity applies to advertisements for jobs, recruitment and selection, training, conditions of work, pay and to any other aspect of employment. The company continues to build links with ethnic minority groups and monitors the composition of the workforce to track the effectiveness of actions in relation to issues of diversity.

The company continues to be committed to high levels of training and employee development through a wide range of in-house and accredited programmes. Employees are encouraged to seek out the information, development and training needed to carry out their role to its full potential and to share learning, expertise and information with colleagues. The company recognises team and individual achievements via 'Business Excellence' events and presentations.

## **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 company's web based environment and community report which is regularly updated and independently verified. This can be viewed at [www.keldagroup.com/environment](http://www.keldagroup.com/environment)

The company contributes actively to the communities which it serves. One in five employees has volunteered to take part in a wide range of community activities. These include a Community Ambassadors scheme, 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.

## **Going Concern**

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

## **Auditor**

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.



BY ORDER OF THE BOARD PHILIP HUDSON, COMPANY SECRETARY, 21 JUNE 2005  
REGISTERED OFFICE: Western House, Halifax Road, Bradford BD6 2SZ  
REGISTERED IN ENGLAND NO 2366682

***Profit and Loss Account***  
*for the Year Ended 31 March 2005*

	<i>Notes</i>	<b>2005</b> <b>£m</b>	<b>2004</b> <b>£m</b>
<b>Turnover</b>		<b>649.4</b>	612.7
Operating costs	2	<u>(366.6)</u>	<u>(361.9)</u>
<b>Operating profit before exceptional costs</b>		<b>282.8</b>	250.8
Exceptional restructuring costs	2	<u>(5.8)</u>	<u>-</u>
<b>Operating profit</b>		<b>277.0</b>	250.8
Net interest payable	7	<u>(76.9)</u>	<u>(75.1)</u>
<b>Profit before taxation</b>		<b>200.1</b>	175.7
Taxation	8	<u>(35.7)</u>	<u>(31.2)</u>
<b>Profit for the year</b>		<b>164.4</b>	144.5
Dividends	9	<u>(105.7)</u>	<u>(100.3)</u>
<b>Retained profit for the financial year</b>	20	<u><b>58.7</b></u>	<u>44.2</u>

***Statement of Recognised Gains and Losses***  
*for the Year Ended 31 March 2005*

There are no other recognised gains and losses arising other than the profit for the year of £164.4m (2004:£144.5m)

# Balance Sheet

as at 31 March 2005

	Notes	2005 £m	2004 £m
<b>Fixed assets</b>			
Intangible assets	10	13.2	14.2
Tangible assets	11	3,542.4	3,362.9
Investments	12	16.7	16.7
		<u>3,572.3</u>	<u>3,393.8</u>
<b>Current assets</b>			
Stocks	13	0.6	0.8
Debtors	14	222.2	326.1
Cash and short term deposits		-	-
		<u>222.8</u>	<u>326.9</u>
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings	17	(25.6)	(37.4)
Other creditors	15	(319.9)	(285.0)
		<u>(345.5)</u>	<u>(322.4)</u>
<b>Net current (liabilities)/assets</b>		<u>(122.7)</u>	<u>4.5</u>
<b>Total assets less current liabilities</b>		<u>3,449.6</u>	<u>3,398.3</u>
<b>Creditors: amounts falling due after more than one year</b>			
Long term borrowings	16	(667.9)	(691.8)
Other creditors	15	(907.6)	(906.3)
<b>Provisions for liabilities and charges</b>	18	<u>(203.0)</u>	<u>(187.8)</u>
		<u>1,671.1</u>	<u>1,612.4</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	775.0	775.0
Profit and loss account	20	896.1	837.4
<b>Total equity shareholder's funds</b>		<u>1,671.1</u>	<u>1,612.4</u>

Approved by the board of directors on 21 June 2005 and signed on their behalf by:



**Kevin Whiteman**  
Managing Director

# Notes to the Accounts

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## 1. ACCOUNTING POLICIES

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

### *Basis of accounting*

The accounts of the company are prepared under the historical cost convention in compliance with all applicable accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the accounts, with the Companies Act 1985.

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

The financial statements are prepared on the going concern basis as the immediate holding company has agreed that it will continue to provide financial support to this company to enable it to meet its liabilities as they fall due.

### *Turnover*

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

### *Pensions*

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the period benefiting from the employees' services in accordance with SSAP 24.

### *Research and development expenditure*

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

### *Taxation*

The taxation charge in the profit and loss account is based on the profit for the year as adjusted for disallowable and non-taxable items using current rates and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and 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 disposal 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

## Notes to the Accounts

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Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted using the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

### **Investments**

Other fixed asset investments are stated at cost less provision for impairment in value.

### **Intangible assets**

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

Goodwill arising on the transfer of the trade and net assets of The York Waterworks Ltd is being amortised over a 19 year period. The net book amount of £13.2m is shown under intangible assets in the balance sheet at 31 March 2005.

### **Tangible fixed assets and depreciation**

Tangible fixed assets comprised the following:-

#### **Infrastructure assets**

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

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

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

#### **Other tangible fixed assets**

Other tangible assets are included at cost less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are not capitalised.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets on a straight-line basis over their estimated economic lives, or the estimated useful economic lives of their individual major components, from the month following commissioning.

Useful economic lives are principally as follows:-

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

## *Notes to the Accounts*

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Assets in the course of construction are not depreciated until commissioned. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

### *Leased assets*

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

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

### *Grants and contributions*

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

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

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

### *Stocks*

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

### *Foreign currencies*

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

### *Provisions*

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

## *Notes to the Accounts*

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### ***Financial instruments***

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

### ***Divisionalisation of subsidiary undertakings***

As the Instrument of Appointment of The York Waterworks Ltd was merged with that of Yorkshire Water Services Ltd on 1 April 2000, its trade and net assets were transferred to the company at their net book value, which was less than their fair value. As a result of the transfer, the value of the company's investment in that subsidiary undertaking fell below the amount at which it was stated in the company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However, the directors consider that, as there has been no overall loss to the Group, this would fail to give a true and fair view. The difference should instead be reallocated to goodwill at the time of the asset transfer, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect on the company's balance sheet of this departure is to recognise goodwill of £13.2m (2004: £14.2m), net of amortisation of £4.7m (2004: £3.7m). The Group accounts are not affected by this transfer.

## Notes to the Accounts

<b>2. OPERATING COSTS</b>	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
Own work capitalised	(23.6)	(22.5)
Raw materials and consumables	11.9	11.8
Other external charges	162.0	161.2
Wages and salaries	59.7	57.7
Social security costs	5.3	5.0
Other pension costs	5.8	5.6
Depreciation of fixed tangible assets:		
On owned assets		
- infrastructure	39.2	37.7
- other assets	95.3	90.7
On assets held under finance leases		
- infrastructure	1.2	1.3
- on other assets	13.0	13.3
Operating lease rentals		
- plant and equipment	1.7	1.7
- other	0.3	0.5
Amortisation of grants & contributions	(3.3)	(3.3)
Amortisation of goodwill on subsidiary undertakings	1.0	0.9
Restructuring costs	3.0	4.8
Research and development	0.9	0.9
Other operating income	(6.8)	(5.4)
	<u>366.6</u>	<u>361.9</u>
Staff costs- exceptional restructuring costs	5.8	-
<b>Exceptional operating costs</b>		
<p>The Company incurred exceptional restructuring costs of £5.8m. These exceptional restructuring costs relate primarily to the additional reductions in manpower required to achieve the Company's efficiency targets implicit in the Final Determination on price limits for the five year period 1 from April 2005 announced by OFWAT in December 2004.</p>		
<b>Auditors' remuneration</b>		
Statutory audit fees and expenses	0.1	0.1
Non-audit work	-	-
	<u>0.1</u>	<u>0.1</u>
<b>Employees</b>		
The average number of persons employed by the company during the year was:	<u>2,158</u>	<u>2,157</u>

## Notes to the Accounts

### 3. DIRECTORS

	2005			2004		2005	2004
	Salary	Bonus	Benefits	Total	Total	Pension	Pension
<i>Remuneration of the Board</i>	£000	£000	£000	emoluments	emoluments	contri-	contri-
		payments	in kind	excluding	excluding	butions	butions
				pension	pension		
				contributions	contributions	£000	£000
<b>Chairman:</b>							
J. A. Napier	-	-	-	-	-	-	-
<b>Directors:</b>							
R. K. Ackroyd	116	41	4	161	151	13	12
A. M. Bainbridge	97	40	8	145	124	12	11
G. Dixon	96	35	8	139	128	12	11
C. V. Firlotte (resigned 31.7.2003)	-	-	-	-	57	-	-
R. D. Flint	93	37	7	137	80	11	7
A. Harrison	115	40	9	164	154	19	18
E. A. Kerry	16	-	-	16	16	-	-
M. C. Smith	90	32	8	130	120	11	10
K. I. Whiteman	-	-	-	-	-	-	-
P. D. Wynn (resigned 1.1.2005)	75	33	8	116	142	9	11
	<b>698</b>	<b>258</b>	<b>52</b>	<b>1,008</b>	<b>972</b>	<b>87</b>	<b>80</b>

The Chairman, J. A. Napier, the Managing Director, K. I. Whiteman, D. F. Roberts and C. C. Fisher were directors of the holding company, Kelda Group plc, and their emoluments are shown in the accounts of that company.

All the executive directors have service agreements which are terminable by the company on twelve months' notice.

The executive directors participated in a profit related pay scheme which is open to all UK employees who have been employed by the group for a minimum period of permanent employment. In 2004/05 this scheme paid £415 (2004: £420) to each qualified participant and this is included in the emoluments table above.

During 2004/05, 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 2004/05, A. Harrison, was £58,770.

## Notes to the Accounts

### 4. DIRECTORS' SHARE OPTIONS

In common with all eligible employees of the group, executive directors are entitled to participate in the company's Inland Revenue approved save-as-you-earn share option scheme. The interests of directors in particular issues under the scheme are:

	<i>Balance at 1 April 2004</i>	<i>Granted during year</i>	<i>Exercised/ lapsed during 31 March year</i>	<i>Balance at 31 March 2005</i>	<i>Exercise price (pence)</i>	<i>Market price at date of exercise (pence)</i>	<i>Date options Exercisable</i>	<i>Date options expire</i>
R. K. Ackroyd								
Sharesave	1,008	-	-	<b>1,008</b>	366.0	-	1.3.07	31.8.07
Sharesave	-	1,233	-	<b>1,233</b>	461.0	-	1.3.08	31.8.08
A. M. Bainbridge								
Sharesave	2,407	-	-	<b>2,407</b>	275.0	-	1.3.07	31.8.07
Sharesave	1,771	-	-	<b>1,771</b>	320.0	-	1.3.06	31.8.06
G. Dixon								
Sharesave	1,771	-	-	<b>1,771</b>	320.0	-	1.3.06	31.8.06
Sharesave	-	822	-	<b>822</b>	461.0	-	1.3.08	31.8.08
R. D. Flint								
Sharesave	4,330	-	-	<b>4,330</b>	366.0	-	1.3.09	31.8.09
A. Harrison								
Sharesave	6,018	-	-	<b>6,018</b>	275.0	-	1.3.07	31.8.07
M. C. Smith								
Sharesave	2,072	-	(2,072)	-	275.0	595.5	1.3.05	31.8.05
Sharesave	-	2,055	-	<b>2,055</b>	461.0	-	1.3.08	31.8.08

The Chairman, J. A. Napier, and the Managing Director, K. I. Whiteman, were directors of the holding company, Kelda Group plc, and their share options are shown in the accounts of that company.

The market price of the shares subject to these options at 31 March 2005 was 598.00p (2004: 450.75p) and has ranged from 459.25p to 632.50p during the year. The aggregate gain on the exercise of share options during the year was £6,641 (2004: £7,055).

The Sharesave Scheme refers to shares in the holding company, Kelda Group plc and is described in the accounts of that company.

## Notes to the Accounts

### 5. DIRECTORS' SHARE INTERESTS

The interests of the directors who held office at the end of the year, and their immediate families, in the ordinary shares of the holding company, Kelda Group plc, as at 31 March 2005 and at the beginning of the year (or date of appointment if later) are set out below:

	<i>Ordinary shares of 15 5/9p each at 1 April 2004</i>	<i>Ordinary shares of 15 5/9p each sold in year</i>	<i>LTIPs Vested in year</i>	<i>Options Exercised in year</i>	<i>Ordinary shares of 15 5/9p each at 31 Mar 2005</i>
R. K. Ackroyd	11,319	(5,000)	4,228	-	10,547
A. M. Bainbridge	112	(2,065)	1,953	-	-
G. Dixon	2,026	(1,530)	3,349	-	3,845
R. D. Flint	-	(1,277)	1,277	-	-
A. Harrison	-	-	4,132	-	4,132
M. C. Smith	10,027	(1,488)	1,488	2,072	12,099

The Chairman, J. A. Napier, the Managing Director, K. I. Whiteman, D.F. Roberts and C.C. Fisher were directors of the holding company, Kelda Group plc, and their interests in the ordinary shares of Kelda Group plc are shown in the accounts of that company.

At no time during the year has any director had a material interest in a contract with any company in the group, being a contract which was significant in relation to the business of that company.

### 6. LONG TERM INCENTIVES

The company operates a long-term incentive plan for executive directors of the company which is described in detail in the accounts of the holding company. Under this scheme, conditional awards of shares have been made to directors in the year and are shown overleaf. The awards relating to K. I. Whiteman are disclosed in the accounts of the holding company. Some or all of the shares may be vested after 3 years dependent on company performance during that period.

The market price of the shares on 20 June 2005 was 666.5p. The aggregate value of shares vested during the year was £147,435 (2004: £98,537).

## Notes to the Accounts

	<i>At 1 April 2004</i>	<i>Granted during year</i>	<i>Dividend shares</i>	<i>Vested during year</i>	<i>At 31 March 2005</i>	<i>Earliest vesting date</i>
R. K. Ackroyd	6,203	-	-	(6,203)	-	7.6.04
	5,741	-	-	-	<b>5,741</b>	11.6.05
	12,887	-	-	-	<b>12,887</b>	2.9.06
	-	9,960	-	-	<b>9,960</b>	27.5.07
A. M. Bainbridge	2,866	-	-	(2,866)	-	7.6.04
	2,683	-	-	-	<b>2,683</b>	11.6.05
	10,915	-	-	-	<b>10,915</b>	2.9.06
	-	8,599	-	-	<b>8,599</b>	27.5.07
G. Dixon	4,913	-	-	(4,913)	-	7.6.04
	4,890	-	-	-	<b>4,890</b>	11.6.05
	11,187	-	-	-	<b>11,187</b>	2.9.06
	-	8,730	-	-	<b>8,730</b>	27.5.07
R. D. Flint	1,874	-	-	(1,874)	-	7.6.04
	1,878	-	-	-	<b>1,878</b>	11.6.05
	7,226	-	-	-	<b>7,226</b>	2.9.06
	-	7,366	-	-	<b>7,366</b>	27.5.07
A. Harrison	6,062	-	-	(6,062)	-	7.6.04
	5,611	-	-	-	<b>5,611</b>	11.6.05
	12,594	-	-	-	<b>12,594</b>	2.9.06
	-	9,734	-	-	<b>9,734</b>	27.5.07
M. C. Smith	2,184	-	-	(2,184)	-	7.6.04
	2,580	-	-	-	<b>2,580</b>	11.6.05
	10,655	-	-	-	<b>10,655</b>	2.9.06
	-	7,321	-	-	<b>7,321</b>	27.5.07

## Notes to the Accounts

### 7. INTEREST

	2005	2004
	£m	£m
<b>Interest payable on:</b>		
Bank loans and overdrafts	16.4	21.8
Finance leases	21.5	17.1
Inter-company loans	46.9	46.6
Other loans	-	-
	<u>84.8</u>	<u>85.5</u>
<b>Interest receivable:</b>		
Inter-company loans	(7.4)	(10.1)
Other	(0.5)	(0.3)
	<u>76.9</u>	<u>75.1</u>

### 8. TAXATION

	2005	2004
	£m	£m
<b>Current Tax</b>		
Corporation tax at 30% (2004: 30%)	19.5	16.4
Group relief payments	1.5	2.6
	<u>21.0</u>	<u>19.0</u>
<b>Deferred Tax</b>		
Charge for timing differences arising and reversing in the year	39.2	34.4
Adjustments in respect of prior years	(6.8)	5.8
	<u>32.4</u>	<u>40.2</u>
Increase in discount	(17.7)	(28.0)
	<u>14.7</u>	<u>12.2</u>
<b>Total deferred tax (see Note 18)</b>	<u>14.7</u>	<u>12.2</u>
<b>Total tax on profit on ordinary activities</b>	<u>35.7</u>	<u>31.2</u>

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is shown overleaf:

## Notes to the Accounts

	2005	2004
	£m	£m
<b>Profit on ordinary activities before tax</b>	200.1	175.7
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	60.0	52.7
Effects of:		
Expenses not deductible for tax purposes	0.2	0.7
Capital allowances in excess of depreciation	(39.2)	(34.4)
<b>Current tax charge for period</b>	<b>21.0</b>	<b>19.0</b>

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

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

### 9. DIVIDENDS

	2005	2004
	£m	£m
Interim paid	30.9	31.0
Final proposed	74.8	69.3
	<b>105.7</b>	<b>100.3</b>

### 10. INTANGIBLE ASSETS

	<i>Goodwill</i>
	£m
<b>Cost</b>	
Balance at 1 April 2004 and 31 March 2005	17.9
<b>Amortisation</b>	
Balance at 1 April 2004	(3.7)
Charge for the year	(1.0)
Balance at 31 March 2005	(4.7)
<b>Net book amount as at 31 March 2005</b>	<b>13.2</b>
Net book amount as at 31 March 2004	14.2

## Notes to the Accounts

### 11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost</b>					
At 1 April 2004	1,315.3	1,992.9	1,612.1	193.7	5,114.0
Additions	16.8	54.9	52.9	224.6	349.2
Transfers on commissioning	16.0	48.5	62.0	(126.5)	-
Disposals	(0.1)	-	(4.2)	(2.7)	(7.0)
Grants and contributions	-	-	-	(20.8)	(20.8)
<b>At 31 March 2005</b>	<b>1,348.0</b>	<b>2,096.3</b>	<b>1,722.8</b>	<b>268.3</b>	<b>5,435.4</b>
<b>Depreciation</b>					
At 1 April 2004	387.0	722.5	641.6	-	1,751.1
Disposals	(0.1)	-	(4.0)	(2.7)	(6.8)
Depreciation for the year	23.0	40.4	82.6	2.7	148.7
<b>At 31 March 2005</b>	<b>409.9</b>	<b>762.9</b>	<b>720.2</b>	<b>-</b>	<b>1,893.0</b>
<b>Net book amount at 31 March 2005</b>	<b>938.1</b>	<b>1,333.4</b>	<b>1,002.6</b>	<b>268.3</b>	<b>3,542.4</b>
Net book amount at 31 March 2004	928.3	1,270.4	970.5	193.7	3,362.9
At 31 March 2005 assets included above held under finance leases amounted to:					
Cost	150.8	59.4	281.7	32.4	524.3
Depreciation	24.6	9.7	115.0	-	149.3
<b>Net book amount at 31 March 2005</b>	<b>126.2</b>	<b>49.7</b>	<b>166.7</b>	<b>32.4</b>	<b>375.0</b>
Net book amount at 31 March 2004	128.7	50.9	177.2	32.4	389.2
	<b>Cost at 31 March 2005 £m</b>	<b>Depreciation at 31 March 2005 £m</b>	<b>Net book value at 31 March 2005 £m</b>	<b>Net book value at 31 March 2004 £m</b>	
<b>The net book amount of land and buildings comprised:</b>					
Freehold properties	1,346.4	409.5	936.9	927.1	
Properties held on long lease	0.5	-	0.5	0.4	
Properties held on short lease	1.1	0.4	0.7	0.8	
	<b>1,348.0</b>	<b>409.9</b>	<b>938.1</b>	<b>928.3</b>	

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The company's accounting policy in respect of grants and contributions is a departure from the Companies Act 1985 requirements and is adopted, as explained in the accounting policy note on page 15, in order to show a true and fair view of the investment in infrastructure assets. As a consequence, the net book amount of fixed assets is £280.1m lower than it would have been had this treatment not been adopted.

## Notes to the Accounts

### 12. INVESTMENTS

	Shares in group undertakings £m	Other unlisted investments £m	Total £m
Cost and net book value as at 1 April 2004 and 31 March 2005	16.6	0.1	16.7

#### *Shares in group undertakings*

The balance at 1 April 2004 and 31 March 2005 relates to the 100% holding in The York Waterworks Ltd which was written down to the value of the underlying net assets in 2001 and the 99.9% holding in Yorkshire Water Services Finance Plc, whose principal activity is the raising of finance.

#### *Other unlisted investments*

The company holds £27,119 of 8% Unsecured Loan Stock and £14,562 of 'A' ordinary shares in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry. There was a small investment disposal in the year, namely WRC, where a profit of £23k was realised.

The company has taken advantage of the exemption from preparing group accounts under section 228 of The Companies Act 1985. Consolidated accounts have been prepared by Kelda Group plc, the company's immediate parent undertaking. Copies are available from its registered office: Kelda Group plc, Western House, Halifax Road, Bradford, BD6 2SZ.

### 13. STOCKS

	2005 £m	2004 £m
Raw materials and consumables	0.4	0.7
Work in progress	0.2	0.1
	<u>0.6</u>	<u>0.8</u>

### 14. DEBTORS

	2005 £m	2004 £m
Trade debtors	43.4	39.6
Amounts owed by group undertakings	104.4	216.8
Amounts owed by associated undertakings	0.2	0.1
Prepayments and accrued income	54.8	49.9
<b>Other debtors:</b>		
Receivable within one year	19.3	19.5
Receivable after more than one year	0.1	0.2
	<u>222.2</u>	<u>326.1</u>

## Notes to the Accounts

### 15. OTHER CREDITORS

	2005	2004
	£m	£m
<b>Amounts falling due within one year:</b>		
Trade creditors	33.1	24.7
Capital creditors	55.8	46.5
Deferred grants and contributions on depreciating fixed assets	3.2	3.2
Amounts owed to group undertakings	106.9	101.9
Amounts owed to subsidiary undertakings	17.4	17.4
Social security and other taxes	2.3	2.3
Taxation	19.5	16.4
Receipts in advance	47.1	44.5
Other creditors	34.6	28.1
	<u>319.9</u>	<u>285.0</u>
<b>Amounts falling due after more than one year:</b>		
Amounts owed to parent company	440.0	440.0
Amounts owed to subsidiary undertakings	301.0	297.8
Deferred grants and contributions on depreciating fixed assets	85.2	88.3
Other creditors	81.4	80.2
	<u>907.6</u>	<u>906.3</u>

### 16. LONG TERM BORROWINGS

	2005	2004
	£m	£m
<i>Maturities</i>		
<b>Repayable between one and two years:</b>		
Bank loans	-	2.1
<b>Repayable between two and five years:</b>		
Other loans	3.1	-
<b>Repayable by instalments and maturing after five years:</b>		
Bank loans	208.4	222.4
Finance leases	456.4	463.7
<b>Wholly repayable after five years:</b>		
Other loans	-	3.6
	<u>667.9</u>	<u>691.8</u>

## Notes to the Accounts

### 17. AGGREGATE BORROWINGS AND CASH

	<i>Bank loans and overdrafts</i>	<i>Other loans</i>	<i>Finance leases</i>	<i>Total</i>
	£m	£m	£m	£m
<b>Repayments</b>				
Within one year or on demand	18.4	-	7.2	25.6
Between one and two years	14.3	-	7.7	22.0
Between two and five years	64.3	3.1	26.9	94.3
After five years	129.8	-	421.8	551.6
	<b>226.8</b>	<b>3.1</b>	<b>463.6</b>	<b>693.5</b>
Amounts owed by parent company				(100.0)
Amounts owed to parent company				440.0
Amounts owed to subsidiary company				294.5
Net debt				<b>1,328.0</b>

As shown above, the net debt as at 31 March 2005 was £1,328.0m (2004: £1,250.7m).

Borrowings repayable in instalments after more than five years include £421.8m (2004: £431.4m) in respect of finance leases which have expiry dates ranging from 2018 to 2033 and carry interest rates based on 12 month LIBOR (London Inter-Bank Offered Rate).

### 18. PROVISION FOR LIABILITIES AND CHARGES

	<i>Deferred tax</i>	<i>Self Insurance</i>	<i>Total</i>
	£m	£m	£m
At 1 April 2004	186.3	1.5	187.8
Additions during the year	14.7	0.8	15.5
Utilised in year	-	0.3	0.3
<b>At 31 March 2005</b>	<b>201.0</b>	<b>2.0</b>	<b>203.0</b>

#### *Deferred tax*

	<b>2005</b>	<b>2004</b>
	£m	£m
At 1 April 2004	<b>186.3</b>	174.1
Deferred tax charged to the profit and loss account	<b>14.7</b>	12.2
<b>At 31 March 2005</b>	<b>201.0</b>	<b>186.3</b>

## Notes to the Accounts

### 18. PROVISION FOR LIABILITIES AND CHARGES (continued)

Deferred tax is provided as follows:

	At 31 March 2005	At 31 March 2004
	£m	£m
Accelerated capital allowances	574.1	541.1
Short term timing differences	(1.0)	(0.4)
Undiscounted provision for deferred tax	<u>573.1</u>	<u>540.7</u>
Discount	(372.1)	(354.4)
Discounted provision for deferred tax	<u>201.0</u>	<u>186.3</u>

The current rate of corporation tax of 30% (2004: 30%) has been used to calculate the amount of deferred tax. Provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances and other material timing differences. These deferred tax assets and liabilities have been discounted to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse.

### 19. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
Ordinary shares of £1 each at 31 March 2004 and 2005	<u>775,000,000</u>	<u>775,000,000</u>

### 20. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves</i>	<i>Share capital</i>	<i>Total funds</i>
	£m	£m	£m
<b>At 1 April 2003</b>	793.2	775.0	1,568.2
Profit for the year	144.5	-	144.5
Dividends	(100.3)	-	(100.3)
<b>At 31 March 2004</b>	<u>837.4</u>	<u>775.0</u>	<u>1,612.4</u>
Profit for the year	164.4	-	164.4
Dividends	(105.7)	-	(105.7)
<b>At 31 March 2005</b>	<u>896.1</u>	<u>775.0</u>	<u>1,671.1</u>

## Notes to the Accounts

### 21. COMMITMENTS

	2005	2004
Capital and infrastructure renewals expenditure	<b>£m</b>	£m
commitments for contracts placed at 31 March were:	<b>148.4</b>	194.9

The long term investment programme for the company, which identified substantial future capital expenditure commitments in the period 1 April 2005 to 31 March 2010, was agreed as part of the Periodic Review process which was finalised in December 2004.

At 31 March 2005 the company was committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>
	2005	2005	2004	2004
<b>Leases which expire:</b>	<b>£m</b>	<b>£m</b>	£m	£m
Within one year	-	0.7	-	1.0
Between one and five years	0.3	0.1	0.3	0.1
	<b>0.3</b>	<b>0.8</b>	0.3	1.1

### 22. CONTINGENT LIABILITIES

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other.

The company has guaranteed bonds at 6 7/8% due 2010 and 6.625% due 2031 issued by the parent company. The liabilities under these guarantees amounted to £200m and £240m respectively at 31 March 2005.

The company has guaranteed bonds at 5.375% due 2023 and 3.048% due 2033 issued by the subsidiary company Yorkshire Water Services Finance Plc. The liabilities under these guarantees amounted to £200 million and £100 million respectively at 31 March 2005.

### 23. PENSIONS

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 one category providing benefits on a defined contribution basis.

The most recent actuarial valuation of the KGPP was carried out as at 31 March 2004 when the market value of assets was £500.0m. Under the assumptions adopted for SSAP24, the actuarial valuation of the assets represented 96% of the value of the accrued benefits, after allowing for expected future earnings increases. The worsening in the funding level from that disclosed in last year's accounts of 107.5% is primarily a result of the adverse changes in financial conditions experienced since the last actuarial valuation in 2001.

## ***Notes to the Accounts***

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### **23. PENSIONS (continued)**

The pension cost under SSAP 24 'Accounting for Pension Costs' for KGPP has been assessed in accordance with the advice of Mercer Human Resource Consulting Limited, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 7.6% per annum pre-retirement and 5.6% post-retirement, pay growth of 4% per annum and increases to pensions in payment and deferred pensions of 2.8% per annum. The actuarial value of the assets was taken as the market value of the assets. In deriving the pension costs under SSAP 24, the surplus is being spread over the future working lifetime of the employees.

Yorkshire Water Services Ltd is unable to identify its share of the underlying assets and liabilities of the KGPP and therefore accounts for pension costs on a contribution basis.

Contributions over the year ended 31 March 2005 were paid by members at 1.5%, 3%, 3.5%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The company contributed at 200% of members contributions during the accounting year in respect of the majority of members. Following on from the results of the 31 March 2004 actuarial valuation, the employer has agreed to increase its contributions to 475% of members' contributions with effect from 1 April 2005.

The employers' contributions have been assessed in accordance with the advice of Mercer Human Resource Consulting using different assumptions to those described above.

An accrual for unfunded benefits of £1.0m (2004 £0.7m) has been included in the company's accounts.

The company's total pension charge for the year was £5.8m (2004: £5.6m).

Additional disclosures required by FRS 17 in respect of the group scheme, including the major assumptions, are set out in the accounts of the parent company, together with disclosures of the market values of the assets and the FRS 17 value of liabilities of the KGPP at 31 March 2005.

### **24. ULTIMATE PARENT COMPANY**

Kelda Group plc, which is registered in England and Wales, is the company's ultimate parent company and controlling party and is the parent undertaking of the smallest and largest group to consolidate these accounts. Copies of the group accounts may be obtained from the Company Secretary, Kelda Group plc, Western House, Halifax Road, Bradford BD6 2SZ.

### **25. CASHFLOW STATEMENT**

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

### **26. RELATED PARTY TRANSACTIONS**

As a wholly owned subsidiary of Kelda Group plc, where consolidated statutory accounts are publicly available the company has taken advantage of the exemption provided by Financial Reporting Standard 8 not to report on related party transactions pertaining to companies within the group or investees of the group qualifying as related parties.

## Notes to the Accounts

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

Related party	<i>Sales to related party</i> £000	<i>Amounts owed from related party</i> £000
Brey Services Ltd		
2005	490	234
2004	123	120

Kelda Water Services Ltd, a wholly owned subsidiary of Kelda Group plc, has a 45% interest in Brey Services Ltd.

### 27. SEGMENTAL INFORMATION

The Regulatory Accounting Information, commencing at page 33 of this document, shows a split of the company's activities between the Appointed Business (provision of water and sewerage services) and Non-Appointed Business.

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

# *Directors' Responsibilities*

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## **DIRECTORS' RESPONSIBILITIES**

### *In relation to the accounts*

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss account 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# *Auditors' Report*

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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LIMITED**

We have audited the company's financial statements for the year ended 31 March 2005, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company 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.*

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards 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 judgements 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 of the state of affairs of the company as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*  
Ernst & Young LLP  
Registered Auditor, Leeds

*21 June 2005*

# Regulatory Accounting Information 2005

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### *Explanatory note*

Pages 34 to 57 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

## ***Historical Cost Profit and Loss Account*** for the year ended 31 March 2005

	2005			2004		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- Appointed £m	Total £m
<b>Turnover</b>	<b>640.1</b>	<b>9.3</b>	<b>649.4</b>	605.2	6.5	611.7
Operating costs	(369.7)	(9.5)	(379.2)	(360.3)	(6.0)	(366.3)
Operating income	4.8	-	4.8	3.5	-	3.5
<b>Operating profit</b>	<b>275.2</b>	<b>(0.2)</b>	<b>275.0</b>	248.4	0.5	248.9
Other income	2.0	-	2.0	1.9	-	1.9
Interest receivable	7.9	-	7.9	10.4	-	10.4
Interest payable	(84.7)	(0.1)	(84.8)	(85.4)	(0.1)	(85.5)
<b>Profit on ordinary activities before taxation</b>	<b>200.4</b>	<b>(0.3)</b>	<b>200.1</b>	175.3	0.4	175.7
Taxation - current tax	(21.0)	-	(21.0)	(19.0)	-	(19.0)
- deferred tax	(14.7)	-	(14.7)	(12.2)	-	(12.2)
<b>Profit on ordinary activities after taxation</b>	<b>164.7</b>	<b>(0.3)</b>	<b>164.4</b>	144.1	0.4	144.5
Dividends - interim	(30.9)	-	(30.9)	(31.0)	-	(31.0)
- final	(74.8)	-	(74.8)	(69.3)	-	(69.3)
<b>Retained profit for the year</b>	<b>59.0</b>	<b>(0.3)</b>	<b>58.7</b>	43.8	0.4	44.2

Comparative turnover and operating cost figures for 2004 have been adjusted by £0.9m to eliminate double-counted costs from both turnover and operating costs. These common services costs were recharged to an associate company as turnover then subsequently charged back as part of a contract. This is not consistent with the statutory accounts presentation. This adjustment is not required in 2004/05.

The accounting policies set out on pages 11 to 14 apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets (explained in Note 15 on page 54) and the investment in The York Waterworks Ltd (explained in Note 1 on page 40).

# Historical Cost Balance Sheet

as at 31 March 2005

	2005			2004		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>						
Tangible assets	3,545.3	5.2	3,550.5	3,377.3	5.4	3,382.7
Investments	13.3	-	13.3	14.3	-	14.3
	<b>3,558.6</b>	<b>5.2</b>	<b>3,563.8</b>	<b>3,391.6</b>	<b>5.4</b>	<b>3,397.0</b>
<b>Current assets</b>						
Stocks	0.6	-	0.6	0.8	-	0.8
Debtors	120.0	2.2	122.2	112.6	0.5	113.1
Cash at bank and in hand	-	-	-	-	-	-
Short term investments	100.0	-	100.0	213.0	-	213.0
	<b>220.6</b>	<b>2.2</b>	<b>222.8</b>	<b>326.4</b>	<b>0.5</b>	<b>326.9</b>
<b>Creditors: amounts falling due within one year</b>						
Borrowings	(22.8)	(2.8)	(25.6)	(36.0)	(1.4)	(37.4)
Dividends payable	(74.8)	-	(74.8)	(69.3)	-	(69.3)
Other creditors	(224.2)	(1.1)	(225.3)	(195.5)	(0.4)	(195.9)
	<b>(321.8)</b>	<b>(3.9)</b>	<b>(325.7)</b>	<b>(300.8)</b>	<b>(1.8)</b>	<b>(302.6)</b>
<b>Net current (liabilities)/assets</b>	<b>(101.2)</b>	<b>(1.7)</b>	<b>(102.9)</b>	<b>25.6</b>	<b>(1.3)</b>	<b>24.3</b>
<b>Total assets less current liabilities</b>	<b>3,457.4</b>	<b>3.5</b>	<b>3,460.9</b>	<b>3,417.2</b>	<b>4.1</b>	<b>3,421.3</b>
<b>Creditors: amounts falling due after more than 1 year</b>						
Borrowings	(1,402.4)	-	(1,402.4)	(1,426.3)	-	(1,426.3)
Other creditors	(87.9)	-	(87.9)	(83.5)	-	(83.5)
	<b>(1,490.3)</b>	<b>-</b>	<b>(1,490.3)</b>	<b>(1,509.8)</b>	<b>-</b>	<b>(1,509.8)</b>
<b>Provisions for liabilities and charges</b>						
Deferred tax	(201.0)	-	(201.0)	(186.3)	-	(186.3)
Other	(10.1)	-	(10.1)	(21.3)	-	(21.3)
Deferred income	(83.3)	(5.1)	(88.4)	(86.1)	(5.4)	(91.5)
	<b>1,672.7</b>	<b>(1.6)</b>	<b>1,671.1</b>	<b>1,613.7</b>	<b>(1.3)</b>	<b>1,612.4</b>
<b>Capital and reserves</b>						
Called up share capital	775.0	-	775.0	775.0	-	775.0
Profit and loss account	897.7	(1.6)	896.1	838.7	(1.3)	837.4
	<b>1,672.7</b>	<b>(1.6)</b>	<b>1,671.1</b>	<b>1,613.7</b>	<b>(1.3)</b>	<b>1,612.4</b>

***Current Cost Profit and Loss Account***  
***for the Appointed Business***  
*for the year ended 31 March 2005*

	<i>Notes</i>	<b>2005</b> £m	2004 £m
<b>Turnover</b>	6	<b>640.1</b>	605.2
Current cost operating costs	7	<b>(423.0)</b>	(417.0)
Operating income	6	<b>4.8</b>	3.5
		<b>221.9</b>	191.7
Working capital adjustment	6	<b>(6.0)</b>	(7.4)
<b>Current cost operating profit</b>		<b>215.9</b>	184.3
Other income		<b>2.0</b>	1.9
Interest receivable		<b>7.9</b>	10.4
Interest payable		<b>(84.7)</b>	(85.4)
Financing adjustment		<b>53.0</b>	43.5
<b>Current cost profit on ordinary activities before taxation</b>		<b>194.1</b>	154.7
Taxation - current tax		<b>(21.0)</b>	(19.0)
- deferred tax		<b>(14.7)</b>	(12.2)
<b>Current cost profit on ordinary activities after taxation</b>		<b>158.4</b>	123.5
Dividends		<b>(105.7)</b>	(100.3)
<b>Current cost profit retained</b>		<b>52.7</b>	23.2

**Current Cost Balance Sheet**  
**For the Appointed Business**  
*for the year ended 31 March 2005*

	<i>Notes</i>	<b>2005</b> £m	2004 £m
<b>Fixed assets</b>			
Tangible assets	8	<b>20,954.5</b>	19,957.2
Third party contributions since 1989/90		<b>(320.9)</b>	(301.3)
<b>Working capital</b>	9	<b>44.5</b>	164.2
<b>Net operating assets</b>		<b>20,678.1</b>	19,820.1
Cash and investments		<b>13.3</b>	14.3
Non-trade debtors		<b>19.4</b>	19.7
Non-trade creditors due within one year		<b>(97.6)</b>	(107.9)
Creditors due after one year		<b>(1,490.2)</b>	(1,509.8)
Provisions for liabilities and charges:			
- deferred tax		<b>(201.0)</b>	(186.3)
- other		<b>(2.0)</b>	(1.5)
Dividends payable		<b>(74.8)</b>	(69.3)
<b>Net assets employed</b>		<b>18,845.2</b>	17,979.3
<b>Capital and reserves</b>			
Called up share capital		<b>775.0</b>	775.0
Profit and loss account		<b>344.9</b>	292.2
Current cost reserve	10	<b>17,725.3</b>	16,912.1
		<b>18,845.2</b>	17,979.3

## Current Cost Cash Flow Statement

for the year ended 31 March 2005

	Notes	2005			2004		
		Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Net cash flow from operating activities</b>	11	429.8	(1.3)	428.5	381.3	1.3	382.6
<b>Returns on investments and servicing of finance</b>							
Interest received		8.2	-	8.2	11.2	-	11.2
Interest paid		(62.8)	(0.1)	(62.9)	(63.5)	(0.1)	(63.6)
Interest in finance lease rentals		(15.7)	-	(15.7)	(17.4)	-	(17.4)
<b>Net cash flow from returns on Investments and servicing of finance</b>		(70.3)	(0.1)	(70.4)	(69.7)	(0.1)	(69.8)
<b>Taxation</b>							
Tax paid		(18.9)	-	(18.9)	(10.2)	-	(10.2)
<b>Capital expenditure and financing of investment</b>							
Gross cost of purchase of fixed assets		(279.7)	-	(279.7)	(250.9)	-	(250.9)
Receipt of grants and contributions		11.1	-	11.1	16.2	-	16.2
Infrastructure renewals expenditure		(52.1)	-	(52.1)	(49.6)	-	(49.6)
Disposal of fixed assets		4.6	-	4.6	5.4	-	5.4
<b>Net cash outflow from investing activities</b>		(316.1)	-	(316.1)	(278.9)	-	(278.9)
<b>Equity dividends paid</b>		(100.4)	-	(100.4)	(101.3)	-	(101.3)
<b>Net cash outflow before financing</b>		(75.9)	(1.4)	(77.3)	(78.8)	1.2	(77.6)
<b>Financing</b>							
Capital element in finance lease rentals		(6.9)	-	(6.9)	(6.4)	-	(6.4)
New bank loans		-	-	-	-	-	-
Movement in inter-company loans		113.0	-	113.0	102.0	-	102.0
Repayment of bank loans		(22.9)	-	(22.9)	(22.1)	-	(22.1)
<b>Net cash inflow from financing</b>		83.2	-	83.2	73.5	-	73.5
<b>Increase/(decrease) in cash</b>		7.3	(1.4)	5.9	(5.3)	1.2	(4.1)

# *Notes to the Regulatory Accounting Information*

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## **1. ACCOUNTING POLICIES - CURRENT COST INFORMATION**

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

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

### **Infrastructure assets**

As noted on page 34, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals is shown as a provision within working capital in the current cost balance sheet.

### **Tangible fixed assets**

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

The modern equivalent asset values arising from the last Periodic Review are incorporated in the 2004/05 Regulatory Accounting Information.

#### **- Land and buildings**

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

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

#### **- Infrastructure assets**

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

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

## *Notes to the Regulatory Accounting Information*

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- **Other fixed assets**  
All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.
- **Surplus land**  
Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Instrument of Appointment.

### **Grants and other third party contributions**

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

### **Real financial capital maintenance adjustments**

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

- **Working capital adjustment**  
This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.
- **Financing adjustment**  
This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

### **Investment in York Waterworks**

The intangible assets and investments accounting policy on page 12 of the accounts outlines the treatment of the transfer of the trade and net assets of The York Waterworks Ltd to Yorkshire Water Services Ltd. In the regulatory accounts, the investment figure and compensating inter-company creditor of £16.6m have been netted to provide suitable comparisons with the previous year and consistency with the approach agreed with OFWAT.

## **2. RING FENCING**

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

## *Notes to the Regulatory Accounting Information*

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### **3. APPOINTED AND NON-APPOINTED BUSINESS**

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

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

### **4. DIRECTORS' CERTIFICATE – CONDITION F**

The Directors declare that the company will have available, for at least the next 12 months, sufficient financial resources and facilities to enable it to carry out its regulated activities and sufficient management resources to enable it to carry out its functions. This assessment is based on the net worth of the company as shown in the accounts and on its Business Plan for the forthcoming year.

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

### **5. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES**

#### **Allocation of costs**

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

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

#### **Borrowings or sums lent**

During the year, surplus funds were invested with the parent company at 3 month LIBOR rates. At 31 March 2005, the sum invested was £100m. On 31 March 2000, £200m was lent by the parent company, at a fixed rate of 6.875%, repayable in 2010, on 17 April 2000 £150m was lent at a fixed rate of 6.625% repayable in 2031, and on November 2001 a further £90m was lent at a fixed rate of 6.625% repayable in 2031. £195.8m has been lent by Yorkshire Water Services Finance Plc, a subsidiary of the company, at a fixed rate of 5.375%, repayable in 2023 and £98.7m, at a floating rate, repayable in 2033. No other material sums were lent to or borrowed from other associated companies.

## Notes to the Regulatory Accounting Information

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### Dividends paid to associated undertakings

Amounts paid to the parent company, Kelda Group plc, and the underlying dividend policy are disclosed in the Directors' Report on page 4 of these accounts.

### Guarantees/securities

The bankers for Kelda Group current accounts provide an arrangement whereby debit and credit balances are pooled with interest charged on the net group balance.

This facility is subject to provision of cross guarantees by each company within the pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank. This is provided the net amount of aggregate cleared debit less credit balances must not exceed £20m nor must the aggregate cleared debit balances exceed £25m.

### Transfer of Assets and Liabilities

During the course of the year land and buildings were sold to group companies at market value. Total sale proceeds were £4.6m (2004: £3.5m).

### Supply of Service

Details of services supplied to the Appointee by associates during the year are disclosed below where these exceed a materiality level of £1m (in line with RAG 5.03 requirements). No services of a material value were provided by the Appointee to associates.

Service	Associate Company	Turnover of Associate £m	Terms of Supply	Value £m
Corporate charges	Kelda Group plc	4.3	Cost allocation	2.8
Customer Services	Loop Customer Management	19.3	Cost allocation	16.1

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

## Notes to the Regulatory Accounting Information

### 6. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 2005

	2005			2004		
	Water services £m	Sewerage services £m	Total Appointed Business £m	Water services £m	Sewerage services £m	Total Appointed Business £m
<b>Turnover</b>						
Measured	120.2	102.3	222.5	111.6	89.8	201.4
Unmeasured	168.6	187.7	356.3	163.7	181.3	345.0
Trade effluent	-	11.3	11.3	-	11.5	11.5
Large user revenues	19.5	17.9	37.4	17.5	17.4	34.9
Other sources	0.8	5.2	6.0	0.9	5.4	6.3
Third party services	6.5	0.1	6.6	5.9	0.2	6.1
<b>Total turnover</b>	<b>315.6</b>	<b>324.5</b>	<b>640.1</b>	<b>299.6</b>	<b>305.6</b>	<b>605.2</b>
<b>Operating income</b>						
Current cost profit on fixed assets	3.9	0.9	4.8	1.3	2.2	3.5
Net of expenses						
<b>Total operating income</b>	<b>3.9</b>	<b>0.9</b>	<b>4.8</b>	<b>1.3</b>	<b>2.2</b>	<b>3.5</b>
<b>Working capital adjustment</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(6.0)</b>	<b>(3.7)</b>	<b>(3.7)</b>	<b>(7.4)</b>

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

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

No amounts were paid by the appointed business to charitable funds assisting customers as these are dealt with in the accounts of the parent company.

## Notes to the Regulatory Accounting Information

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2005

	Resources and treatment	Distribution	Water Supply sub total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	4.4	4.6	<b>9.0</b>
Power	6.4	2.9	<b>9.3</b>
Agencies	-	-	-
Hired and contracted services	5.0	11.0	<b>16.0</b>
Associated companies	-	-	-
Materials and consumables	5.1	0.1	<b>5.2</b>
Service charges EA	5.2	-	<b>5.2</b>
Bulk supply imports	2.4	-	<b>2.4</b>
Other direct costs	1.3	1.8	<b>3.1</b>
<b>Total direct costs</b>	29.8	20.4	<b>50.2</b>
General and support expenditure	9.1	12.3	<b>21.4</b>
<b>Functional expenditure</b>	38.9	32.7	<b>71.6</b>
Total business activities			<b>15.6</b>
Local authority rates			<b>18.0</b>
Doubtful debts			<b>3.3</b>
Exceptional items			<b>2.2</b>
<b>Total opex less third party services</b>			<b>110.7</b>
Third party services - opex			<b>6.4</b>
<b>Total operating expenditure</b>			<b>117.1</b>
<b>Capital costs</b>			
Infrastructure renewals expenditure	4.2	23.0	<b>27.2</b>
Movement in infrastructure renewals accrual/prepayment	0.2	0.9	<b>1.1</b>
Current cost depreciation (allocated)	48.6	18.6	<b>67.2</b>
Amortisation of deferred credits			<b>(1.6)</b>
Amortisation of intangible assets			<b>1.0</b>
Business activities current cost depreciation (non-allocated)			<b>0.5</b>
<b>Total capital maintenance</b>			<b>95.4</b>
<b>TOTAL OPERATING COSTS</b>			<b>212.5</b>
<b>CCA GROSS MEA VALUES</b>			
Service activities	4,578.9	4,654.5	<b>9,233.4</b>
Business activities			<b>10.8</b>
<b>Service totals</b>			<b>9,244.2</b>
Services for third parties			-
<b>TOTAL</b>			<b>9,244.2</b>

## Notes to the Regulatory Accounting Information

Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment and disposal £m	Sewerage services sub total £m	Customer Services £m	Scientific services £m	Cost of Regulation £m
2.9	5.1	2.7	7.8	10.7			
1.7	7.1	2.6	9.7	11.4			
-	-	-	-	-			
6.2	8.6	6.5	15.1	21.3			
-	-	-	-	-			
0.1	0.9	2.7	3.6	3.7			
1.0	3.3	-	3.3	4.3			
-	-	-	-	-			
1.2	1.2	0.6	1.8	3.0			
13.1	26.2	15.1	41.3	54.4	15.7	6.9	2.8
5.6	10.0	4.7	14.7	20.3	0.7	1.6	0.7
18.7	36.2	19.8	56.0	74.7	16.4	8.5	3.5
				12.7			
				12.0			
				3.1			
				3.6			
				106.1			
				0.2			
				106.3			
24.9	-	-	-	24.9			
(12.8)	-	-	-	(12.8)			
7.8	69.2	16.0	85.2	93.0			
				(1.5)			
				-			
				0.6			
				104.2			
				210.5			
11,262.0	2,702.1	378.0	3,080.1	14,342.1			
				10.8			
				14,352.9			
				-			
				14,352.9			

## Notes to the Regulatory Accounting Information

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2004

	Resources and treatment	Distribution	Water Supply sub total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	5.2	3.9	9.1
Power	6.9	3.4	10.3
Agencies	-	-	-
Hired and contracted services	4.8	11.7	16.5
Associated companies	-	-	-
Materials and consumables	4.5	0.1	4.6
Service charges EA	5.1	-	5.1
Bulk supply imports	2.4	-	2.4
Other direct costs	1.2	2.7	3.9
<b>Total direct costs</b>	30.1	21.8	51.9
General and support expenditure	10.4	12.0	22.4
<b>Functional expenditure</b>	40.5	33.8	74.3
Total business activities			16.1
Local authority rates			17.4
Doubtful debts			3.7
Exceptional items			-
<b>Total opex less third party services</b>			111.5
Third party services - opex			5.9
<b>Total operating expenditure</b>			117.4
<b>Capital costs</b>			
Infrastructure renewals expenditure	4.8	23.5	28.3
Movement in infrastructure renewals accrual/prepayment	(0.2)	(0.7)	(0.9)
Current cost depreciation (allocated)	43.4	21.7	65.1
Amortisation of deferred credits			(1.6)
Amortisation of intangible assets			0.9
Business activities current cost depreciation (non-allocated)			1.3
<b>Total capital maintenance</b>			93.1
<b>TOTAL OPERATING COSTS</b>			210.5
<b>CCA GROSS MEA VALUES</b>			
Service activities	4,168.0	5,101.0	9,269.0
Business activities			11.0
<b>Service totals</b>			9,280.0
Services for third parties			-
<b>TOTAL</b>			9,280.0

## Notes to the Regulatory Accounting Information

Sewerage	Sewage Treatment	Sludge treatment and disposal	Sewage Treatment and disposal	Sewerage Services sub total	Customer Services	Scientific Services	Cost of Regulation
£m	£m	£m	£m	£m	£m	£m	£m
3.0	5.3	3.0	8.3	11.3			
1.5	7.9	2.1	10.0	11.5			
-	-	-	-	-			
6.1	9.3	5.7	15.0	21.1			
-	-	-	-	-			
0.2	1.1	2.8	3.9	4.1			
1.0	3.0	-	3.0	4.0			
-	-	-	-	-			
1.1	1.1	0.7	1.8	2.9			
12.9	27.7	14.3	42.0	54.9	16.9	6.4	2.8
4.8	10.3	4.7	15.0	19.8	0.8	1.6	0.6
17.7	38.0	19.0	57.0	74.7	17.7	8.0	3.4
				13.0			
				10.6			
				3.8			
				-			
				102.1			
				0.2			
				102.3			
21.3	-	-	-	21.3			
(9.6)	-	-	-	(9.7)			
8.9	67.1	16.8	83.9	92.8			
				(1.5)			
				-			
				1.3			
				104.2			
				206.5			
9,946.1	2,997.4	300.8	3,298.2	13,244.3			
				8.2			
				13,252.5			
				-			
				13,252.5			

## Notes to the Regulatory Accounting Information

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

as at 31 March 2005

	Specialised Operational Assets £m	Non- specialised operational properties £m	Infrastructure Assets £m	Other tangible assets £m	Total £m
<b>WATER SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2004	1,880.1	107.0	7,132.2	186.0	9,305.3
AMP adjustment	(115.7)	(89.2)	(235.8)	42.6	(398.1)
RPI adjustment	56.4	0.6	219.9	7.3	284.2
Disposals	(4.7)	(0.1)	-	(2.4)	(7.2)
Additions	28.4	0.3	42.4	14.2	85.3
<b>At 31 March 2005</b>	<b>1,844.5</b>	<b>18.6</b>	<b>7,158.7</b>	<b>247.7</b>	<b>9,269.5</b>
<b>Depreciation</b>					
At 1 April 2004	836.1	3.7	-	139.8	979.6
AMP adjustment	(42.2)	1.4	-	(40.9)	(81.7)
RPI adjustment	25.4	0.2	-	3.1	28.7
Disposals	(4.7)	-	-	(2.4)	(7.1)
Charge for year	43.6	0.8	-	23.4	67.8
<b>At 31 March 2005</b>	<b>858.2</b>	<b>6.1</b>	<b>-</b>	<b>123.0</b>	<b>987.3</b>
<b>Net book amount at 31 March 2005</b>	<b>986.3</b>	<b>12.5</b>	<b>7,158.7</b>	<b>124.7</b>	<b>8,282.2</b>
Net book amount at 1 April 2004	1,044.0	103.3	7,132.2	46.2	8,325.7
<b>SEWERAGE SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2004	3,235.6	149.6	9,709.7	157.6	13,252.5
AMP adjustment	(309.1)	(107.7)	814.3	63.7	461.2
RPI adjustment	93.7	1.4	336.7	7.1	438.9
Disposals	(1.4)	-	-	(2.0)	(3.4)
Additions	114.0	1.6	73.9	14.2	203.7
<b>At 31 March 2005</b>	<b>3,132.8</b>	<b>44.9</b>	<b>10,934.6</b>	<b>240.6</b>	<b>14,352.9</b>
<b>Depreciation</b>					
At 1 April 2004	1,487.5	23.3	-	110.2	1,621.0
AMP adjustment	(45.8)	(6.0)	-	(28.2)	(80.0)
RPI adjustment	46.2	0.6	-	2.6	49.4
Disposals	(1.4)	-	-	(1.9)	(3.3)
Charge for year	68.2	1.2	-	24.1	93.5
<b>At 31 March 2005</b>	<b>1,554.7</b>	<b>19.1</b>	<b>-</b>	<b>106.8</b>	<b>1,680.6</b>
<b>Net book amount at 31 March 2005</b>	<b>1,578.1</b>	<b>25.8</b>	<b>10,934.6</b>	<b>133.8</b>	<b>12,672.3</b>
Net book amount at 1 April 2004	1,748.1	126.3	9,709.7	47.4	11,631.5

## Notes to the Regulatory Accounting Information

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2005

	Specialised Operational Assets £m	Non- specialised operational properties £m	Infrastructure Assets £m	Other Tangible Assets £m	Total £m
<b>TOTAL</b>					
<b>Gross replacement cost</b>					
At 1 April 2004	5,115.7	256.6	16,841.9	343.6	22,557.8
AMP adjustment	(424.8)	(196.9)	578.5	106.3	63.1
RPI adjustment	150.1	2.0	556.6	14.4	723.1
Disposals	(6.1)	(0.1)	-	(4.4)	(10.6)
Additions	142.4	1.9	116.3	28.4	289.0
<b>At 31 March 2005</b>	<b>4,977.3</b>	<b>63.5</b>	<b>18,093.3</b>	<b>488.3</b>	<b>23,622.4</b>
<b>Depreciation</b>					
At 1 April 2004	2,323.6	27.0	-	250.0	2,600.6
AMP adjustment	(88.0)	(4.6)	-	(69.1)	(161.7)
RPI adjustment	71.6	0.8	-	5.7	78.1
Disposals	(6.1)	-	-	(4.3)	(10.4)
Charge for year	111.8	2.0	-	47.5	161.3
<b>At 31 March 2005</b>	<b>2,412.9</b>	<b>25.2</b>	<b>-</b>	<b>229.8</b>	<b>2,667.9</b>
<b>Net book amount at 31 March 2005</b>	<b>2,564.4</b>	<b>38.3</b>	<b>18,093.3</b>	<b>258.5</b>	<b>20,954.5</b>
Net book amount at 1 April 2004	2,792.1	229.6	16,841.9	93.6	19,957.2

## *Notes to the Regulatory Accounting Information*

### **9. WORKING CAPITAL**

	2005	2004
	£m	£m
Stocks	0.6	0.8
Trade debtors	43.0	39.5
Trade creditors	(42.4)	(28.4)
Short term capital creditors	(55.8)	(46.5)
Infrastructure renewals accrual	(8.1)	(19.8)
Trade payments in advance	(47.1)	(44.5)
Payroll related taxes & social security contributions	(2.3)	(2.3)
Group trade debtors	102.2	215.6
Prepayments	54.4	49.8
	<hr/>	<hr/>
	44.5	164.2
	<hr/>	<hr/>

### **10. MOVEMENT ON CURRENT COST RESERVE**

	2005	2004
	£m	£m
<b>Balance at 1 April</b>	16,912.1	16,452.7
AMP adjustment	224.8	-
RPI adjustments		
Fixed assets	645.0	502.9
Working capital	6.0	7.4
Financing	(53.0)	(43.5)
Grants & third party contributions	(9.6)	(7.4)
	<hr/>	<hr/>
<b>Balance at 31 March</b>	17,725.3	16,912.1
	<hr/>	<hr/>

## *Notes to the Regulatory Accounting Information*

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

	2005 £m	2004 £m
<b>Current cost operating profit</b>	<b>215.9</b>	184.3
Working capital adjustment	6.0	7.4
Change in stocks	0.1	0.5
Receipts from other income	2.0	1.9
Current cost depreciation	159.2	158.3
Current cost profit on sale of assets	(4.8)	(3.5)
(Increase)/decrease in debtors and prepaid expenses	(7.1)	(7.2)
Increase in creditors and accrued expenses	17.7	1.2
Infrastructure renewals expenditure	52.1	49.6
Decrease in provisions	(11.3)	(11.2)
<b>Net cash flow from operating activities</b>	<b>429.8</b>	<b>381.3</b>

### **12. ANALYSIS OF NET DEBT**

	At 31 Mar 2004 £m	Cash flow £m	At 31 Mar 2005 £m
Cash in hand and bank	-	-	-
Overdrafts	8.1	(6.0)	2.1
Loans due within one year	22.4	(6.2)	16.2
Loans due after one year	228.1	(16.6)	211.5
Finance leases	470.6	(6.9)	463.7
Inter-company loan	521.5	113.0	634.5
<b>Total net debt</b>	<b>1,250.7</b>	<b>77.3</b>	<b>1,328.0</b>
Appointed Business	1,249.3	75.9	1,325.2
Non – Appointed Business	1.4	1.4	2.8
<b>Total net debt</b>	<b>1,250.7</b>	<b>77.3</b>	<b>1,328.0</b>

## Notes to the Regulatory Accounting Information

### 13. CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS - ROLLING SUMMARY

	2005 £m	*2004 £m	*2003 £m	*2002 £m	*2001 £m
<b>Turnover</b>	<b>640.1</b>	624.0	602.0	606.5	596.2
Current cost operating costs	(423.0)	(429.9)	(418.8)	(426.3)	(427.8)
Operating income	<u>4.8</u>	<u>3.6</u>	<u>6.4</u>	<u>1.8</u>	<u>10.3</u>
	<b>221.9</b>	197.7	189.6	182.0	178.7
Working capital adjustment	<u>(6.0)</u>	<u>(7.6)</u>	<u>0.3</u>	<u>(0.1)</u>	<u>0.5</u>
<b>Current cost operating profit</b>	<b>215.9</b>	190.1	189.9	181.9	179.2
Other income	2.0	2.0	1.6	1.6	2.2
Net interest	(76.8)	(77.3)	(75.4)	(69.4)	(62.5)
Financing adjustment	<u>53.0</u>	<u>44.8</u>	<u>41.8</u>	<u>16.9</u>	<u>25.3</u>
<b>Current cost profit before taxation</b>	<b>194.1</b>	159.6	157.9	131.0	144.2
Taxation – current tax	(21.0)	(19.6)	(12.0)	1.7	(20.7)
- deferred tax	<u>(14.7)</u>	<u>(12.6)</u>	<u>(35.5)</u>	<u>(16.9)</u>	<u>(12.9)</u>
<b>Current cost profit on ordinary activities</b>	<b>158.4</b>	127.4	110.4	115.8	110.6
Dividends	<u>(105.7)</u>	<u>(103.4)</u>	<u>(106.9)</u>	<u>(106.4)</u>	<u>(212.6)</u>
<b>Current cost profit retained</b>	<b>52.7</b>	24.0	3.5	9.4	(102.0)

\* Figures for prior years shown in the table have been restated to 2004/05 prices using RPI indexation.

Total turnover for the year increased to £640.1m in 2004/05 (2004: £624.0m), which represents an increase of 5.8% (2.6% after adjusting for inflation) compared with the 6.5% overall increase in charges from 1 April 2004.

Operating expenditure (adjusted for inflation) has decreased steadily over the five year period due to continuing cost reductions and efficiency improvement but increasing capital maintenance costs arising from the large capital programme have led to an increase in overall operating costs in 2003/04.

Net interest payable has increased each year reflecting the company's increasing net debt level.

There has been a slight increase in the overall tax charge for 2005. The current year tax charge has increased by £1.4m to £21.0m, due to higher taxable profits offset by an increase in capital allowances. The deferred tax charge has increased by £2.1m to £14.7m reflecting a change in the gilt yields used for discounting purposes. This has been included in the accounts to comply with FRS 19 and its calculation is described in Note 8 of the statutory accounts on page 20.

## Notes to the Regulatory Accounting Information

Details of the dividend paid in the year and the underlying dividend policy are disclosed in the Directors' Report on page 4 of the statutory accounts. The 2001 figure included an efficiency dividend of £98m.

### 14. CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS - ROLLING SUMMARY

	2005	*2004	*2003	*2002	*2001
	£m	£m	£m	£m	£m
<b>Fixed assets</b>					
Tangible assets	20,954.5	20,595.8	20,482.6	20,358.5	20,234.4
Third party contributions since 1989/90	(320.9)	(310.9)	(302.0)	(289.9)	(269.7)
<b>Working capital</b>	<b>44.5</b>	169.5	298.3	(10.8)	11.3
<b>Net operating assets</b>	<b>20,678.1</b>	20,454.4	20,478.9	20,057.8	19,976.0
Cash and investments	13.3	14.8	16.1	17.9	19.2
Non-trade debtors	19.4	20.3	17.5	26.9	16.4
Non-trade creditors due within one year	(97.6)	(111.4)	(98.5)	(76.2)	(73.8)
Creditors due after one year	(1,490.2)	(1,558.1)	(1,625.5)	(1,276.9)	(1,210.3)
Provisions for liabilities and charges:					
- deferred tax	(201.0)	(192.3)	(184.4)	(153.5)	(138.3)
- other	(2.0)	(1.5)	(2.3)	(2.2)	(1.2)
Dividends payable	(74.8)	(71.5)	(74.5)	(74.9)	(73.7)
<b>Net assets employed</b>	<b>18,845.2</b>	18,554.7	18,527.3	18,518.9	18,514.3
<b>Capital and reserves</b>					
Called up share capital	775.0	799.8	820.7	846.1	857.4
Profit and loss account	344.9	301.6	284.8	290.1	284.2
Current cost reserve	17,725.3	17,453.3	17,421.8	17,382.7	17,372.7
Other reserves	-	-	-	-	-
	<b>18,845.2</b>	18,554.7	18,527.3	18,518.9	18,514.3

\* Figures for prior years shown in the table have been restated to 2004/05 prices using RPI indexation.

## Notes to the Regulatory Accounting Information

The value of tangible fixed assets and related third party contributions has increased significantly over the five year period reflecting the substantial capital investment programme. The operating review on page 1 of the statutory accounts describes the 2004/05 programme in detail.

Working capital increased significantly between 2002 and 2003 due to an increase of £243.0m in loans to the parent company (which then reduced by £104.0m in 2004 and by a further £113.0m in 2005). This is offset however by increases in net debt which occurred in 2003 and is included within creditors due over one year. Fluctuations in the level of capital creditors have also affected working capital, particularly in 2000 and 2002, when figures were high. The level of the infrastructure renewals provision has also decreased from £34.0m in 2001 to £8.1m in 2005.

The change in creditors due over one year mainly reflects the increase in net debt over the five year period. Fluctuations in non-trade creditors due within one year are also mainly attributable to short term borrowings.

A deferred tax provision has been included in the accounts to comply with FRS 19 and its calculation is described in Note 18 of the statutory accounts on pages 25 and 26.

Deferred tax charges have been included for the current and previous years to comply with FRS 19. Prior years' figures have not been calculated, as this is not a requirement for statutory accounts.

### 15. RECONCILIATION OF BALANCE SHEETS IN STATUTORY AND REGULATORY ACCOUNTS

In the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 "Tangible Fixed Assets". However, for the purposes of Regulatory Accounts, OFWAT has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:-

	<b>Infrastructure Assets £m</b>
<b>Cost</b>	
At 31 March 2005 per Regulatory Accounts	1,341.9
Adjustment to opening balance	702.3
Infrastructure renewals capitalised in the year	52.1
<b>At 31 March 2005 per Statutory Accounts</b>	<b>2,096.3</b>

## Notes to the Regulatory Accounting Information

### 15. RECONCILIATION OF BALANCE SHEETS IN STATUTORY AND REGULATORY ACCOUNTS (continued)

#### Depreciation

At 31 March 2005 per Regulatory Accounts	(0.4)
Adjustment to opening balance	(722.1)
Depreciation charge for infrastructure renewals expenditure	(40.4)
<b>At 31 March 2005 per Statutory Accounts</b>	<b>(762.9)</b>

#### Net Book Value

At 31 March 2005 per Regulatory Accounts	1,341.5
Adjustment for infrastructure renewals accounting	(8.1)
<b>At 31 March 2005 per Statutory Accounts</b>	<b>1,333.4</b>

#### Provisions and Liabilities

At 31 March 2005 per Regulatory Accounts	(8.1)
Less infrastructure renewals accrual	8.1
<b>At 31 March 2005 per Statutory Accounts</b>	<b>-</b>

### 16. REGULATORY CAPITAL VALUES AT 2004/05 PRICES

	2005
	£m
Opening regulatory capital value for the year	* 3,247
Capital expenditure	* 289
Infrastructure renewals expenditure	44
Grants and contributions	(17)
Depreciation	(142)
Infrastructure renewals charge	(30)
Outperformance of regulatory assumptions (5 years in arrears)	(23)
<b>Closing regulatory capital value</b>	<b>* 3,368</b>
<b>Average regulatory capital value</b>	<b>3,267</b>

- \* The table shows the regulatory capital value used in setting the price limits for the period 2000/01 to 2004/05. The differences from the actual capital expenditure, depreciation, etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

# ***Auditors' Report on the Regulatory Accounting Information***

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## **To the Director General of Water Services (the "Regulator") and directors of Yorkshire Water Services Limited**

We have audited the Regulatory Accounts of Yorkshire Water Services Limited ("the Company") for the year ended 31 March 2005 on pages 33 to 55 which comprise the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory current cost profit and loss account for the appointed business, the regulatory current cost balance sheet for the appointed business, the regulatory current cost statement of cashflows for appointed business and the related notes to the Regulatory Accounts.

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

### **Basis of preparation**

The Regulatory Accounts have been prepared in accordance with Condition F of the company's Instrument of Appointment as a water and sewerage undertaker, the Regulatory Accounting Guidelines 1.03 (Guideline for accounting for current costs and regulatory capital values), 2.03 (Guideline for the classification of expenditure), 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets), and the accounting policies set out in the statement of accounting policies in note 1 to the historical cost financial statements and note 1 to the current cost financial information.

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

### **Respective responsibilities of the Regulator, the directors and auditors**

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

The directors' responsibilities for preparing the Regulatory Accounts in accordance with the Regulatory Licence and the Regulatory Accounting Guidelines 1.03, 2.03, 3.05 and 4.02 issued by the Regulator are set out in the Statements of Directors' Responsibilities.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom auditing standards issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion'

# ***Auditors' Report on the Regulatory Accounting Information***

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below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

We report our opinion as to whether the Regulatory Accounts present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guidelines 2.03, 3.05 and 4.02, and whether the regulatory current cost accounting statements on pages 33 to 55 have been properly prepared in accordance with Regulatory Accounting Guidelines 1.03, 3.05 and 4.02. We also report to you if, in our opinion, the company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.03, 2.03, 3.05, and 4.02. We also report if we have not received all the information and explanations we require for our audit.

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

## **Basis of audit opinion**

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

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

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the company (our "Statutory" audit) was made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the company's members those matters that we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company and the company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 34 and 35 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that *infrastructure renewals accounting* has been applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disappplied. As a result, the provision for infrastructure renewals remains in provisions for liabilities and charges/debtors. The effect of this departure from Generally Accepted Accounting Principles is given on page 54.

# *Auditors' Report on the Regulatory Accounting Information*

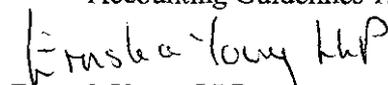
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## **Opinion**

In our opinion, the Regulatory Accounts of the company for the year ended 31 March 2005 fairly present in accordance with Condition F of the company's Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines 1.03, 2.03, 3.05 and 4.02 issued by the Regulator, and the accounting policies set out in note 1 to the historical cost financial statements and note 1 to the current cost financial information, the state of the company's affairs at 31 March 2005 on an historical cost and current cost basis, the historical cost and current cost profit for the year then ended and current cost cash flow for the year the ended, and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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

- a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines 1.03, 2.03, 3.05 and 4.02 issued by the Regulator;
- c) the regulatory historical cost accounting statements on pages 34 to 35 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, 3.05 and 4.02 issued by the Regulator;
- d) the current cost financial information has been properly prepared in accordance with Regulatory Accounting Guidelines 1.03, 3.05 and 4.02 issued by the Regulator.

  
**Ernst & Young LLP**  
Registered Auditor, Leeds

21 June 2005