Registered Number 2366682

YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS 2007

For the year ended
31 March 2007

ANNUAL REPORT AND ACCOUNTS 2007

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Business Review

OUR BUSINESS

Yorkshire Water is the principal UK subsidiary of Kelda Group plc, providing water and waste water services to more than 4 7m people and 140,000 businesses

Every day the company supplies more than 1 3bn litres of water to homes and businesses in Yorkshire Through the efficient operation of its extensive waste water network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment

BUSINESS STRATEGY

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

Value

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

Our customers

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

Our people

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

Environmental leadership

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

Society

Our aim is to make a difference to society, opening up land for public enjoyment and promoting the value of water and health in schools Around 38% of colleagues are involved in community volunteering and external leadership roles and in influencing matters relating to water

Service partners

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

FINANCIAL PERFORMANCE

Key financial performance indicators

	2007		2006
Interest cover	**2.8x**		3 7x
Gearing	**71.7%**		48 8%
Net debt to Regulatory Capital Value (RCV)	**60.1%**		42 5%

Explanation of measures provided in Appendix to Business Review on page 8

Turnover increased by 6 5% to £750 2m (2006 £704 7m) and operating profit (before exceptionals) increased by 7 7% to £323 0m (2006 £299 8m) This year on year improved performance reflects tariff increases and the delivery of further efficiencies Yorkshire Water will still outperform Ofwat's operating cost targets by £2m, even after absorbing considerable increases in energy prices 2007/08 electricity has now been purchased at a cost significantly higher than that allowed in the determination, but at a lower level than seen in 2006/07 The company is implementing initiatives to reduce the impact of the continuing high energy costs

A lump sum contribution of £50m was made by the group to reduce its pension scheme deficit, of which £47 0m was paid by Yorkshire Water As the company continues to account for pensions on a cash contributions basis, adopting the multi-employer exemption under FRS17, the item is chargeable against profits but has been separately identified as an exceptional cost

Regulated capital investment for the year was £362 7m (2006 £330 6m) The investment continues to be directed at the upgrading of the region's clean and waste water infrastructure The capital programme continues to go well with all regulatory outputs delivered on or ahead of schedule and we are on track to achieve our planned 7 5% outperformance of Ofwat's expenditure targets

Net debt of £2,412 0m at year end (2006 £1,553 8m) increased by £858 2m in the year, following payment of additional special dividends to Kelda of £717 0m, in relation to their proposed return of capital to shareholders, the £47m lump sump payment towards the group pension deficit and the funding of the ongoing capital programme As a result, gearing has increased to 71 7% (2006 48 8%) and net debt to RCV to 60 1% (2006 42 5%), which is in line with the 55-65% range assumed by Ofwat in the 2004 Final Determination Interest cover also reduced from 3 7x to 2 8x

Other dividend payments in the year of £109 9m (2006 £268 3m) were made

Accounting policies

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

Treasury policy

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

Business Review

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

OPERATIONAL PERFORMANCE

Key performance indicators

	Target	**Current year**	Previous year
Overall customer satisfaction	100%	85%	85%
Overall drinking water quality	100%	99 94%	99 94%
Waste water treatment works compliance	100%	99 99%	98 97%
Accidents			
- major and over 3 day accidents	17	35	31
- all accidents	85	180	179

Explanation of measures provided in Appendix to Business Review on page 8

Ofwat again confirmed Yorkshire Water as the most efficient water and sewerage company in the UK The company was awarded four 'A' ratings for the efficient way it runs its water and waste water operations

Customer service

Yorkshire Water continued to improve levels of operational and customer service in Ofwat's Overall Performance Assessment (OPA), with an increase in score for the 9th consecutive year The report confirmed that the company achieved the highest grades available in all categories of service indicators

This has been an excellent year for delivering water supply security and further improving our customers' confidence in the company's management of water resources The company continued to achieve leakage reduction targets

A number of significant initiatives in both clean and waste water businesses are already delivering improvements in service and in efficiencies

The biggest technology project within the company in the last 5 years was successfully delivered in November 2006 A new more customer focused billing system replaced a 25 year old system and has run well since This area of technology change has been notoriously difficult for other water utility companies and we are pleased to report that our project was delivered on time, on budget and with no customer impact

Environmental performance

All suppliers working with Yorkshire Water are now assessed using the company's own Environmental Vendor Evaluation System, which contributed towards the company achieving ISO14001 accreditation for every aspect of its operations

Business Review

Good progress was also made towards improving the condition of Sites of Special Scientific Interest (SSSIs) on Yorkshire Water land In addition, 7 Blue Flags were awarded to the region's beaches, a best ever performance We also achieved 100% waste water treatment works compliance The total number of pollution incidents reduced year on year We will be investing further capital and resource in 2007 to reduce the stubborn but small number of more serious pollution incidents

Social impact

We achieved platinum status in the Sunday Times Top 100 Companies that Count 2007 report, based on Business in the Community's corporate responsibility index The report benchmarks companies' performance against a range of social, ethical and environmental issues The company, which achieved its highest ever score of 97%, achieved outstanding performance in the areas of community, environmental, workplace and customer management

During the year Yorkshire Water increased the percentage of its people involved in community volunteering to 38% Our volunteers were involved in a range of activities including 'Cares' initiatives, Right to Read and Numbers Partners, often supported by colleagues from our service partners

The Cool Schools campaign has concluded successfully At the end of the initiative, more than 1,400 coolers have now been installed in 750 schools New projects to work with schools are being planned for the near future

Yorkshire Water continued to be recognised for its environmental efforts, collecting 2 Green Apple environment awards, a Big Tick re-accreditation for its Environmental Management System and a sustainability award for its sludge treatment

Employees

The progress and momentum generated over recent years is directly attributable to the talent, commitment and enthusiasm of Yorkshire Water's people – and particularly their response to change New technology and ways of working have been carefully introduced and adopted over recent years and today innovation is seen at work throughout the business, improving customer service and job satisfaction

Yorkshire Water's commitment to creating a skilled and motivated workforce is seen in its investment in training, with over 250 managers and service partner representatives taking part in extensive leadership development programmes during the year

LOOKING FORWARD

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

A great customer service

A key aspiration is to develop innovative thinking and employ new technologies to deliver an improved level of operational and customer service By reducing the number of customer interruptions and the invasive nature of repair and maintenance work, the company will deliver better service for lower cost

Environmental leadership
During 2007/08, Yorkshire Water will continue to invest in improving waste water treatment works compliance, with particular focus on sewage pumping stations The company's aim is to achieve zero serious pollution incidents

The company is also investing over £20m in renewable energy and has set ambitious targets to achieve zero serious pollution incidents

Setting the pace for value
In 2007/08 the aim remains to outperform key financial targets and to be Ofwat's frontier company for efficiency By being operationally and financially efficient, shareholders and customers will benefit

In this, the third year of the investment period 2005-2010, Yorkshire Water will be driving its largest capital programme

A great place to work
Yorkshire Water plans further significant investment in leadership and people development over the next year with over 250 managers, including service partners, joining its Leading People+ programme

The bigger team
Successful service partners share Yorkshire Water's philosophy of improved service and lower costs Next year, some service partners will be integrated on to the company's IT systems to deliver much closer partnership

Making a difference in Yorkshire
2007/08 will be a key year for the next price review and the company will be setting out its position on a number of key issues for stakeholder consultation as part of a Strategic Direction Statement to be published in late 2007

The company will also be making further investment in improving customer enjoyment of its landholdings and launching a major new schools programme around the issues of health and conservation

PRINCIPAL RISKS AND UNCERTAINTIES

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

Changes to the regulatory environment
Yorkshire Water's price limits are set every 5 years by Ofwat In setting price limits Ofwat make assumptions about, for example, required investment levels, appropriate cost of capital and Yorkshire Water's costs There are some mechanisms for addressing changes to these assumptions between price reviews but, to a significant extent, the risk of such variations is carried by Yorkshire Water until the next price review

PR09 price review
On 30 March 2007 Ofwat published its forward programme to 2010 setting out the timetable for the next price review which is due to be concluded in 2009, and prices effective from April 2010

For the first time, as well as producing a 5 year business plan, water companies will also be required to produce a 25 year strategic direction statement as a basis for consultation with customers and stakeholders, due to be submitted in December 2007

Water industry competition
A legislative regime for market competition in water was established by the Water Act 2003 but as yet has not resulted in any significant competitive activity Ofwat has instigated consultations and intend to carry out further consultations later this year as to how to increase the level of competition in the industry Competitive activity carries risk for Yorkshire Water of losing customers

Changes in legislation
Water strategy
In the summer of 2007, the Government is due to announce a new water strategy The overarching aim of the new strategy is "to improve standards of service and quality, through sustainable water management, whilst achieving a balance between environmental impacts, water quality of surface and ground waters, supply and demand, and social and economic effects".

DEFRA states that the strategy will provide "a timely, high level steer on the Government's water priorities in a way that will be helpful to the water industry and Ofwat during the forthcoming price review"

The strategy will set out priorities, as opposed to details of specific policies Any resulting policy initiatives will be developed with full public consultation and will be subject to regulatory impact assessments where appropriate

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

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

Climate Change Bill
In March 2007 the Government published a draft Climate Change Bill which sets out a framework for moving the UK to a low carbon economy

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

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

A joint Committee of Lords and Commons has been appointed to consider and report on the draft bill by 13 July 2007

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

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

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

Public and private sewers
In February 2007, DEFRA announced that private sewers, which are currently the responsibility of the owners of the properties they serve, are to be transferred into the ownership of the 9 statutory water and sewerage companies in England

This decision follows an extensive review of private sewers which was launched in 2001 in response to concerns raised by householders A consultation in 2003 revealed a high level of support for the transfer and the Government concluded there was a clear case for action

The decision will add more than 50% to the length of sewers Yorkshire Water is responsible for maintaining in the future The costs of transfer and maintaining these sewers is expected to be taken into account by Ofwat when it sets Yorkshire Water's price limits in 2009

The Government has launched a public consultation to seek views on how the transfer should be implemented

Supplier markets
The company is also subject to external market forces, where input prices can sometimes rise beyond the regulatory allowance A good example of this was the fluctuation of energy prices in 2006

FINANCIAL KEY PERFORMANCE INDICATORS

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

Gearing
This ratio measures the proportion of assets invested in the business that are financed by borrowing and is calculated as net debt as a proportion of net debt plus net assets These figures are disclosed in the audited accounts in the balance sheet and note 16 on aggregate borrowings and cash

Net debt to Regulatory Capital Value (RCV)
The RCV is determined by Ofwat and is the value of the capital base on which a return is allowed for price setting purposes The values are calculated and published annually by Ofwat This ratio expresses YW's regulated net debt as a proportion of the RCV, both of which are published in YW's audited regulatory accounts

NON FINANCIAL KEY PERFORMANCE INDICATORS

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

Tracker research is an ongoing telephone survey involving 220 customers chosen at random each month This monitors customers' general perceptions and the experience that customers receive when they come into contact with the company

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

In addition to its continuous customer research programme for domestic customers, Yorkshire Water also tracks customer satisfaction with its business users An online survey is conducted with its largest business users throughout the year and a telephone survey is carried out with other smaller business users on an annual basis

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

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

- Bacteria
- Chemicals such as nitrate and pesticides
- Metals such as lead
- The way the water looks and how it tastes

Although overall compliance with standards is no longer published by the DWI, this continues to be monitored internally for calendar years and the figures quoted relate to December 2006 and December 2005

Waste Water Treatment Works compliance

The Environment Agency issues consents to allow the discharge of treated water from waste water treatment works The 3 principal consented limits are for suspended solids, biochemical oxygen demand and ammonia A range of other substances may be limited depending on the type of discharge This indicator shows loads for the following determinands

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

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

Reportable and notifiable accidents

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

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

These include, for example

- deaths,
- major injuries,
- over-3-day injuries – where an employee or self-employed person is away from work or unable to work normally for more than 3 consecutive days,
- injuries to members of the public or people not at work where they are taken from the scene of an accident to hospital,
- some work-related diseases,
- dangerous occurrences – where something happens that does not result in an injury, but could have done

Directors' Report
for the Year Ended 31 March 2007

The Dırectors present theır report for the year to 31 March 2007

Financial results for the year

Profit on ordınary actıvıtıes was £147 2m (2006 £151 9m)

Share capital

There has been no change durıng the year to the company's ıssued share capıtal of £775 mıllıon ın shares of £1 each fully paıd, all of whıch ıs held by Kelda Group plc

Business review

A revıew of the development and performance of the busıness of the company, ıncludıng strategy, the financıal performance durıng the year, key performance ındıcators, forward-lookıng statements and a descrıptıon of the prıncıpal rısks and uncertaıntıes facıng the company are set out ın the busıness revıew on pages 1 to 9

The purpose of thıs annual report ıs to provıde ınformatıon to members of the company and contaıns certaın forward-lookıng statements wıth respect to the operatıons, performance and financıal condıtıon of the group By theır nature, these statements ınvolve uncertaınty sınce future events and cırcumstances can cause results to dıffer from those antıcıpated Nothıng ın thıs report should be construed as a profit forecast

Principal activities

The dırectors' report should be read ın conjunctıon wıth the busıness revıew The prıncıpal actıvıtıes of the company are the supply of clean water and the treatment and dısposal of waste water ın Yorkshıre, for whıch the company ıs the water and sewerage undertaker The majorıty of the company's operatıons are regulated by Ofwat

Directors

The dırectors who served durıng the year, ıncludıng any changes, are shown below

John Napıer	Chaırman
Kevın Whıteman	Managıng Dırector
Rıchard Ackroyd	
Allıson Baınbrıdge	
Rıchard Flınt	
Graham Dıxon	
Alan Harrıson	
Mıchael Smıth	

<u>Non executıve Dırectors</u>

Elızabeth Kerry
Chrıstopher Fısher
Roger Hyde

All the dırectors held office at 1 Aprıl 2006 and throughout the year Addıtıonal ınformatıon relatıng to dırectors who served durıng the year, ıncludıng ınterests ın shares and share optıons, ıs dısclosed ın Notes 4 and 5 of the accounts

The company has dırectors' and officers' ınsurance ın place

Dıvidends

The total dıvıdend for the year payable to the parent company, Kelda Group plc, of £826 9m comprıses the followıng

	£m
Interım dıvıdend	31 9
Specıal ınterım dıvıdend	717 0
Prıor year final dıvıdend	78 0
Total dıvıdend for the year	826 9

A final regulated dıvıdend of £82 0m and non-regulated dıvıdend of £0 9m for the year have been proposed and authorısed after the year end and accordıngly have not been ıncluded as a lıabılıty ın these financıal statements The specıal ınterım dıvıdends have been paıd to Kelda assocıated wıth theır proposed return of capıtal to shareholders

The company's dıvıdend polıcy ıs to -

- delıver real growth ın dıvıdends recognısıng the management of economıc rısks, the contınuıng need for ınvestment of profits ın the busıness and to pay addıtıonal dıvıdends whıch reflect efficıency ımprovement, and partıcularly ımprovements beyond those assumed ın the determınatıon of prıce lımıts,
- to pay dıvıdends ın respect of the non-appoınted busıness reflectıng the profitabılıty of those actıvıtıes, and
- where ıt ıs foreseeable that the company wıll have sufficıent profits avaılable for dıstrıbutıon to contınue to pay annual dıvıdends consıstent wıth thıs polıcy, the company can also pay specıal dıvıdends as part of any capıtal reorganısatıon whıch the board concludes to be ın the best ınterests of the company and complıes wıth ıts oblıgatıons under ıts lıcence

The dırectors belıeve that the dıvıdends payable for the year are ın accordance wıth these prıncıples

Reserves

An amount of £147 2m has been transferred from reserves, brıngıng the balance held ın reserve to £174 5m (after dıvıdends ın the year of £826 9m)

Research and development

The company undertakes a major programme of research ın pursuıt of ımprovements ın servıce and operatıng efficıency In 2006/07, £4 6m was commıtted to research and development ıncludıng £3 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 Note 11 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 Water Services Regulation Authority (formerly 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 Water Services Regulation Authority

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £362 7m (2006 £330 6m)

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 39 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 43 to 68 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 all colleagues and places great emphasis on open two way communications It values involvement at all levels, recognising that everyone in the business is a potential source of innovation and change Internal consultation and communication processes provide the key to this involvement and play a major part in achieving our vision to be a great place to work

The company promotes freedom of association, principally through its diversity strategy and through collective bargaining arrangements with its recognised trade unions In those parts of the company where union representation is low, wider franchise is achieved through involving 'workforce' representatives on joint working parties or 'works council' type arrangements

The company communications strategy is based on a 'face to face first' approach and all messages are delivered through '2 way' channels, including regular 'Talk Back' sessions with senior management The company magazine Connections is distributed throughout the business and aims to provide business news through the eyes of the company's employees

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

A 'total reward' approach is taken to salary and benefits which are designed to be competitive The group's sharesave scheme, which has a high level of participation at all levels in the business, and 'pay for performance' arrangements, provides an opportunity for all employees to share in the success of the business

The company's equality and diversity, 'open to all', policy covers gender, marital status, parental status, sexual orientation, race, colour, ethnic or national origin, disability, age, religion or belief and trade union membership In 2006 Yorkshire Water received the Yorkshire and Humberside Age Positive Employer Award in recognition of its approach to age diversity and its diverse recruitment project, 'Clearly the Best People', was featured as a case study in Equal Opportunities Review The company's commitment to positive action towards applicants with disabilities has been recognised with the 'double tick' accreditation from the UK Employment Service

The company provides a wide range of development opportunities , including in-house and accredited programmes to help employees develop the necessary skills, knowledge, values and experience to realise their performance potential

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/kel/csr/ourenv/oehighlights

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

Going concern

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

Directors' statement as to disclosure of information to auditors

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

Subsequent events

Since 31 March 2007 the company's subsidiary undertaking, Yorkshire Water Services Finance plc, has issued £600m of bonds guaranteed by the company

Auditor

A resolution to appoint PricewaterhouseCoopers LLP as the company's auditor and to authorise the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting The provision of audit services to the company was offered for tender in 2007 The audit committee conducted the tender process and recommended to the board that a change of auditor from Ernst & Young LLP to PricewaterhouseCoopers was appropriate The proposal is supported by the board

BY ORDER OF THE BOARD STUART McFARLANE, COMPANY SECRETARY, 27 JUNE 2007 REGISTERED OFFICE Western House, Halifax Road, Bradford BD6 2SZ
REGISTERED IN ENGLAND NO 2366682

Profit and Loss Account
for the Year Ended 31 March 2007

	Notes	**2007** **£m**	*2006* £m
Turnover		**750.2**	704 7
Operating costs	2	**(427.2)**	(404 9)
Operating profit before exceptional costs		**323.0**	299 8
Exceptional pension costs	2	**(47.0)**	-
Operating profit		**276.0**	299 8
Net interest payable	7	**(97.0)**	(81 8)
Profit before taxation		**179.0**	218 0
Taxation	8	**(31.8)**	(66 1)
Profit for the year	19	**147.2**	151 9

Statement of Total Recognised Gains and Losses
for the Year Ended 31 March 2007

There are no recognised gains and losses other than those included in the profit and loss account

Balance Sheet

as at 31 March 2007

	Notes	***2007***	*2006*
		£m	£m
Fixed assets			
Intangible assets	*10*	**11.3**	12 3
Tangible assets	*11*	**3,862.9**	3,691 8
Investments	*12*	**16.7**	16 7
		3,890.9	3,720 8
Current assets			
Stocks	*13*	**0.5**	0 4
Debtors	*14*	**217.2**	137 4
Cash and short term deposits		**-**	0 1
		217.7	137 9
Creditors: amounts falling due within one year			
Short term borrowings	*16*	**(22.8)**	(22 2)
Other creditors	*15*	**(1,009.8)**	(341 2)
		(1,032.6)	(363 4)
Net current liabilities		**(814.9)**	(225 5)
Total assets less current liabilities		**3,076.0**	3,495 3
Creditors: amounts falling due after more than one year			
Long term borrowings	*16*	**(767.7)**	(743 2)
Other creditors	*15*	**(1,153.8)**	(904 0)
Provisions for liabilities and charges	*17*	**(202.5)**	(217 0)
		952.0	1,631 1
Capital and reserves			
Called up share capital	*18*	**775.0**	775 0
Profit and loss account	*19*	**174.5**	854 2
Share-based payment reserve	*19*	**2.5**	1 9
Total shareholder's funds		**952.0**	1,631 1

Approved by the board of directors on 27 June 2007 and signed on their behalf by

K. Whiteman

Kevin Whiteman
Managing Director

Notes to the Accounts

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 United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statements of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstracts 'UITF') and, except where otherwise stated in the notes to the accounts, with the Companies Act 1985 Explanations of the departures from the requirements of the Act in respect of grants and contributions and the divisionalisation of subsidiary undertakings are given in the related policies below

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 that it will continue to provide financial support to this company to enable it to meet its liabilities as they fall due

The financial statements contain information about Yorkshire Water Services Ltd as an individual company and do not contain consolidated financial information as the parent of a group The Company is exempt under S228A of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Kelda Group plc, a company registered in England and Wales

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

Turnover is not recognised until the service has been provided to the customer Turnover relates to charges due in the year, excluding any amounts paid in advance Turnover for measured water charges includes amounts billed plus as estimation of the amounts unbilled at the year end The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information

Pensions
The company's employees participate in the Kelda Group Pension Plan (KGPP), a group defined benefit scheme as described in note 22 of the financial statements The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if they were defined contribution schemes

The company has early adopted the amendment to FRS 17 'Retirement Benefits' This has no impact on the profit and loss account or balance sheet but brings disclosures in line with those in the group accounts

Share based payments
The ultimate parent undertaking, Kelda Group plc, company operates a savings related share option scheme under which options have been granted to employees of the company The fair value of the options granted in exchange for employee services rendered is recognised as an expense in the profit and loss account with a corresponding credit to equity

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

The company reassesses its estimate of the number of options that are expected to become exercisable at each balance sheet date Any adjustments to the original estimates are recognised in the profit and loss account (and equity) No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

Awards under the Long Term Incentive Plan (LTIPs) have 2 separate vesting conditions, both of which are dependent on market-based conditions (Kelda shareholder return against a comparator group and against the market) The market-based conditions of the award are taken into account in valuing the award at the grant date At each subsequent balance sheet date the company revises its estimate of the number of employees who will receive awards It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period

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

The provisions of FRS20 have been applied to options granted after 7 November 2002 and not vested before 1 January 2005

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

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 and reviewed for impairment if there are any indications that the carrying value may not be recoverable

Intangible assets
Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired Goodwill is 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 £11 3m is shown under intangible assets in the balance sheet at 31 March 2007

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 fixed 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

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 The effect on the company's balance sheet of this departure is to decrease the net book value of tangible fixed assets by £327 5m (2005 £303 2m)

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

Financial instruments

Trade debtors and creditors

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

Derivative 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 £11 3m (2006 £12 3m), net of amortisation of £6 6m (2006 £5 6m) The Group accounts are not affected by this transfer

2. OPERATING COSTS

		2007	2006
		£m	£m
Own work capitalised		(25.2)	(23 0)
Raw materials and consumables		14.0	13 1
Other external charges		193.8	180 4
Wages and salaries		64.2	61 5
Social security costs		5.7	5 3
Other pension costs		13.7	13 9
Depreciation of fixed tangible assets			
On owned assets	- infrastructure	47.3	45 6
	- other assets	107.4	95 2
On assets held under finance leases	- infrastructure	1.8	2 0
	- on other assets	10.6	14 9
Operating lease rentals	- plant and equipment	2.1	1 8
	- other	0.3	0 3
Amortisation of grants & contributions		(3.2)	(3 2)
Amortisation of goodwill on subsidiary undertakings		1.0	0 9
Restructuring costs		1.1	1 1
Research and development		0.9	0 9
Other operating income		(8.3)	(5 8)
		427.2	404 9

Exceptional operating costs
The company incurred exceptional pension costs of £47m (2006 £nil) which relate to a lump sum payment made to reduce the deficit in the group defined benefit pension scheme

Audit services
During the year the company obtained the following services from the company's auditor at costs as detailed below

	£000	£000
Fees payable to company auditors for the audit of the company accounts	129	111
Fees payable to the company's auditor for other services	30	2
	159	113

Employees

The average number of persons employed by the company during the year was	2,198	2,129

Notes to the Accounts

3. DIRECTORS

	2007	2006
	£000	£000
Aggregate emoluments	**1,168**	959
The amounts ın respect of the hıghest paıd dırector are as follows		
Emoluments	**209**	175

The Chaırman, J A Napıer, the Managıng Dırector, K I Whıteman and C C Fısher were dırectors of the holdıng company, Kelda Group plc, and theır emoluments are shown ın the accounts of that company

All the executıve dırectors have servıce agreements whıch are termınable by the company on 12 months' notıce

In 2005/06 the profit related pay scheme, whıch was open to all UK employees, who had been employed by the group for a mınımum perıod of permanent employment, made ıts final payment of £255 to each qualıfyıng partıcıpant The executıve dırectors had partıcıpated ın thıs scheme and the payments made are ıncluded ın the emoluments table above

Durıng 2006/07, all executıve dırectors were contrıbutory members of the Kelda Group Pensıon Plan, a defined benefit scheme The accrued pensıon benefit of the hıghest paıd dırector ın 2006/07 was £67,497

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

	Balance at 1 April 2006	Granted during year	Exercised/ lapsed during year	Balance at 31 March 2007	Exercise price (pence)	Market price at date of exercise (pence)	Date options exercisable	Date options expire
R K Ackroyd								
Sharesave	1,008	-	1,008	-	366 0	878 5	1 3 07	31 8 07
Sharesave	1,233	-	-	**1,233**	461 0	-	1 3 08	31 8 08
Sharesave	-	510	-	**510**	741 0	-	1 3 10	31 8 10
A M Bainbridge								
Sharesave	2,407	-	2,407	-	275 0	919 5	1 3 07	31 8 07
Sharesave	1,771	-	1,771	-	320 0	726 5	1 3 06	31 8 06
Sharesave	-	1,275	-	**1,275**	741 0	-	1 3 10	31 8 10
G Dixon								
Sharesave	822	-	-	**822**	461 0	-	1 3 08	31 8 08
Sharesave	954	-	-	**954**	588 0	-	1 3 09	31 8 09
R D Flint								
Sharesave	4,330	-	-	**4,330**	366 0	-	1 3 09	31 8 09
A Harrison								
Sharesave	6,018	-	6,018	-	275 0	919 5	1 3 07	31 8 07
Sharesave	-	2,209	-	**2,209**	741 0	-	1 3 12	31 8 12
M C Smith								
Sharesave	2,055	-	-	**2,055**	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 2007 was 938 0p (2006 788 5p) and has ranged from 726 5p to 955 0p during the year The aggregate gain on the exercise of share options during the year was £66,664 (2006 £8,474)

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

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 2007 and at the beginning of the year (or date of appointment if later) are set out below

	Ordinary shares of 15 5/9p each at 1 April 2006	*Ordinary shares of 15 5/9p each sold in year*	*LTIPs vested in year*	*Options exercised in year*	*Ordinary shares of 15 5/9p each at 31 Mar 2007*
R K Ackroyd	9,269	(10,000)	3,965	1,008	**4,242**
A M Bainbridge	1,272	(5,000)	3,358	4,178	**3,808**
G Dixon	6,955	(1,680)	3,441	-	**8,716**
R D Flint	-	-	2,223	-	**2,223**
A Harrison	6,793	-	3,875	6,018	**16,686**
M C Smith	11,823	-	-	-	**11,823**

The Chairman, J A Napier, the Managing Director, K I Whiteman 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 Note 27 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 26 June 2007 was 938p The aggregate value of shares vested during the year was £291,020 (2006 £108,651)

	At 1 April 2006	Granted during year	Dividend shares	Vested during year	Lapsed during year	At 31 March 2007	Earliest vesting date
R K Ackroyd	12,887	-	622	(6,730)	(6,779)	-	2 9 06
	9,960	-	-	-	-	**9,960**	27 5 07
	8,560	-	-	-	-	**8,560**	1 6 08
	-	7,704	-	-	-	**7,704**	12 6 09
A M Bainbridge	10,915	-	527	(5,700)	(5,742)	-	2 9 06
	8,599	-	-	-		**8,599**	27 5 07
	8,300	-	-	-	-	**8,300**	1 6 08
	-	7,615	-	-	-	**7,615**	12 6 09
G Dixon	11,187	-	540	(5,842)	(5,885)	-	2 9 06
	8,730	-	-	-	-	**8,730**	27 5 07
	7,114	-	-	-	-	**7,114**	1 6 08
	-	6,402	-	-	-	**6,402**	12 6 09
R D Flint	7,226	-	349	(3,774)	(3,801)	-	2 9 06
	7,366	-	-	-		**7,366**	27 5 07
	7,905	-	-	-	-	**7,905**	1 6 08
	-	7,321	-	-	-	**7,321**	12 6 09
A Harrison	12,594	-	608	(6,577)	(6,625)	-	2 9 06
	9,734	-	-	-		**9,734**	27 5 07
	9,090	-	-	-	-	**9,090**	1 6 08
	-	7,363	-	-	-	**7,363**	12 6 09
M C Smith	10,655	-	515	(5,565)	(5,605)	-	2 9 06
	7,321	-	-	-		**7,321**	27 5 07
	6,370	-	-	-	-	**6,370**	1 6 08
	-	5,733	-	-	-	**5,733**	12 6 09

7. *INTEREST*

	2007	*2006*
	£m	£m
Interest payable on:		
Bank loans and overdrafts	**21.2**	15 1
Finance leases	**20.4**	23 0
Inter-company loans	**62.2**	46 9
	103.8	85 0
Interest receivable:		
Inter-company loans	**(4.4)**	(2 3)
Other	**(2.4)**	(0 9)
	97.0	81 8

8. *TAXATION*

	2007	*2006*
Current tax	**£m**	£m
Corporation tax at 30% (2006 30%)	**45.0**	43 9
Group relief payments	-	5 2
Adjustments in respect of prior years	-	3 2
Total current tax	**45.0**	52 3
Deferred tax		
Charge for timing differences arising and reversing in the year	**5.9**	15 9
Adjustments in respect of prior years	**(1.8)**	(3 4)
	4.1	12 5
(Increase)/decrease in discount	**(17.3)**	1 3
Total deferred tax (see Note 17)	**(13.2)**	13 8
Total tax on profit on ordinary activities	**31.8**	66.1

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 as follows

	2007	*2006*
	£m	£m
Profit on ordinary activities before tax	**179.0**	218 0
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	**53.7**	65 4
Effects of		
Expenses not deductible for tax purposes	**(2.1)**	0 3
Share-based payments	**(0.7)**	(0 7)
Capital allowances in excess of depreciation & other timing differences	**(5.9)**	(15 9)
Adjustment to tax charge in respect of previous periods	-	3 2
Current tax charge for period	**45.0**	52 3

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

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

The 2007 budget also introduced a number of factors that may also impact the tax charge in future periods

- a change in the UK corporation tax rate from 30% to 28% from 1 April 2008
- a change in the rate of capital allowances

The impact of the above changes cannot be reasonably assessed by the company

9. *DIVIDENDS*

	2007	*2006*
	£m	£m
Prior year final dividend paid	**78.0**	74 8
Interim paid	**31.9**	32 5
Efficiency dividend paid	-	161 0
Special interim dividends	**717.0**	-
	826.9	268 3

A final regulated dividend of £82 0m (2006 £78 0m) and non-regulated dividend of £0 9m (2006 £nil) for the year have been proposed and authorised but not included as a liability in these financial statements The special interim dividends have been paid to Kelda associated with their proposed return of capital to shareholders

10. *INTANGIBLE ASSETS*

	Goodwill
Cost	£m
Balance at 1 April 2006 and 31 March 2007	17 9
Amortisation	
Balance at 1 April 2006	(5 6)
Charge for the year	(1 0)
Balance at 31 March 2007	(6 6)
Net book amount as at 31 March 2007	**11.3**
Net book amount as at 31 March 2006	12 3

11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost					
At 1 April 2006	1,395 3	2,306 7	1,837 7	194 8	5,734 5
Transfers from other Group companies	-	-	-	2 8	2 8
Additions	25 2	38 1	49 0	247 5	359 8
Transfers on commissioning	18 0	42 8	51 6	(112 4)	-
Disposals	(4 0)	-	(8 7)	(0 2)	(12 9)
Grants and contributions	-	-	-	(24 3)	(24 3)
At 31 March 2007	**1,434.5**	**2,387.6**	**1,929.6**	**308.2**	**6,059.9**
Depreciation					
At 1 April 2006	433 4	810 5	798 8	-	2,042 7
Disposals	(4 0)	-	(8 6)	(0 2)	(12 8)
Depreciation for the year	24 6	49 1	93 2	0 2	167 1
At 31 March 2007	**454.0**	**859.6**	**883.4**	**-**	**2,197 0**
Net book amount at 31 March 2007	**980.5**	**1,528.0**	**1,046.2**	**308.2**	**3,862.9**
Net book amount at 31 March 2006	961 9	1,496 2	1,038 9	194 8	3,691 8
At 31 March 2007 assets included above held under finance leases amounted to					
Cost	127 4	85 9	228 9	-	442 2
Depreciation	25 6	13 5	112 3	-	151 4
Net book amount at 31 March 2007	**101.8**	**72.4**	**116.6**	**-**	**290.8**
Net book amount at 31 March 2006	123 7	74 8	157 7	-	356 2

The net book amount of land and buildings comprised:	**Cost at 31 March 2007 £m**	**Depreciation at 31 March 2007 £m**	**Net book value at 31 March 2007 £m**	Net book value at 31 March 2006 £m
Freehold properties	**1,432.9**	**453.6**	**979.3**	960 7
Properties held on long lease	**0.5**	**-**	**0.5**	0 5
Properties held on short lease	**1.1**	**0.4**	**0.7**	0 7
	1,434.5	**454.0**	**980.5**	961 9

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 21, 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 £327 5m (2006 £303 2m) lower than it would have been had this treatment not been adopted

12. INVESTMENTS

	Shares in group undertakings £m	Other unlisted investments £m	Total £m
Cost and net book value as at 1 April 2006 and 31 March 2007	**16.6**	**0.1**	**16.7**

Shares in group undertakings
The balance at 1 April 2006 and 31 March 2007 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 in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry

The company has taken advantage of the exemption from preparing group accounts under section 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

	2007 **£m**	*2006* £m
Raw materials and consumables	**0.4**	0 4
Work in progress	**0.1**	-
	0.5	0 4

14. DEBTORS

	2007 **£m**	*2006* £m
Trade debtors	**56.2**	48 7
Amounts owed by group undertakings	**86.2**	2 2
Amounts owed by associated undertakings	**0.4**	0 2
Prepayments and accrued income	**61.3**	68 4
Other debtors:		
Receivable within one year	**13.0**	17 8
Receivable after more than one year	**0.1**	0 1
	217.2	137 4

15. OTHER CREDITORS

	2007 £m	2006 £m
Amounts falling due within one year:		
Trade creditors	**39.7**	37 0
Capital creditors	**60.3**	71.6
Deferred grants and contributions on depreciating fixed assets	**3.2**	3 2
Amounts owed to group undertakings	**750.6**	87 8
Amounts owed to subsidiary undertakings	**25.0**	19 2
Social security and other taxes	**2.3**	2 3
Taxation	**44.9**	43 9
Receipts in advance	**52.8**	51 1
Other creditors	**31.0**	25 2
	1,009.8	341 2
Amounts falling due after more than one year:		
Amounts owed to parent company	**440.0**	440 0
Amounts owed to subsidiary undertakings	**557.9**	304 2
Deferred grants and contributions on depreciating fixed assets	**79.4**	82 2
Other creditors	**76.5**	77 6
	1,153.8	904 0

16. AGGREGATE BORROWINGS AND CASH

	2007			
	Bank loans and overdrafts £m	*Other loans* £m	*Finance leases* £m	*Total* £m
Repayments				
Within one year or on demand	16 8	-	6 0	22 8
Between one and two years	24 7	-	6 4	31 1
Between two and five years	93 6	2 0	21 9	117 5
After five years	261 2	-	357 9	619 1
	396.3	**2.0**	**392.2**	790 5
Cash at bank				-
Amounts owed to parent company				1,157 0
Amounts owed by parent company				(80 0)
Amounts owed to subsidiary company				544 5
Net debt as at 31 March 2007				**2,412.0**

	2006			
	Bank loans and overdrafts	*Other loans*	*Finance leases*	*Total*
	£m	£m	£m	£m
Repayments				
Within one year or on demand	14 3	-	7 9	22 2
Between one and two years	14 5	-	6 2	20 7
Between two and five years	76 8	2 7	28 8	108 3
After five years	202 7	-	411 5	614 2
	308.3	**2.7**	**454.4**	765 4
Cash at bank				(0 1)
Amounts owed to parent company				494 0
Amounts owed to subsidiary company				294 5
Net debt as at 31 March 2006				**1,553.8**

Borrowings repayable in instalments after more than five years include £357 9m (2006 £411 5m) 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) The finance lease creditors are secured on the underlying assets

17. *PROVISION FOR LIABILITIES AND CHARGES*

	Deferred tax	*Self insurance*	*Total*
	£m	£m	£m
At 1 April 2006	214 8	2 2	217 0
Additions during the year	(13 2)	0 1	(13 1)
Utilised in year	-	(1 4)	(1 4)
At 31 March 2007	**201.6**	**0.9**	**202.5**

Deferred tax

	2007	2006
	£m	£m
At 1 April 2006	**214.8**	201 0
Deferred tax charged to the profit and loss account	**(13.2)**	13 8
At 31 March 2007	**201.6**	214 8

Deferred tax is provided as follows

	At 31 March 2007	At 31 March 2006
	£m	£m
Accelerated capital allowances	**590.2**	582 8
Short term timing differences	**(0.5)**	2 8
Undiscounted provision for deferred tax	**589.7**	585 6
Discount	**(388.1)**	(370 8)
Discounted provision for deferred tax	**201.6**	214 8

The current rate of corporation tax of 30% (2006 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

18. CALLED UP SHARE CAPITAL

	Authorised	*Allotted and fully paid*
Ordinary shares of £1 each at 31 March 2006 and 2007	**775,000,000**	**775,000,000**

19. MOVEMENT IN SHAREHOLDER'S FUNDS

	P & L reserve	*Share-based payment reserve*	*Share capital*	*Total funds*
	£m	£m	£m	£m
At 1 April 2005	**970.6**	**1.3**	**775.0**	**1,746.9**
Profit for the year	151 9	-	-	151 9
Dividends	(268 3)	-	-	(268 3)
Share-based payments amount due to parent	-	1 0	-	1 0
Other	-	(0 4)	-	(0 4)
At 31 March 2006	**854.2**	**1.9**	**775.0**	**1,631.1**
Profit for the year	147 2	-	-	147 2
Dividends	(826 9)	-	-	(826 9)
Share-based payments amount due to parent	-	1 3	-	1 3
Other	-	(0 7)	-	(0 7)
At 31 March 2007	**174.5**	**2.5**	**775.0**	**952.0**

20. COMMITMENTS

	2007	2006
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were	345.5	273 5

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 2007 the company was committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below

	Land and buildings 2007	Other 2007	Land and buildings 2006	Other 2006
Leases which expire:	**£m**	**£m**	£m	£m
Within one year	**0.3**	**1.1**	0 3	0 9
Between one and five years	-	**0.3**	-	0 1
Over 5 years	**0.1**	-	-	-
	0.4	**1.4**	0 3	1 0

21. 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 2007

The company has guaranteed bonds at 5 375% due 2023, 3 048% due 2033 (index linked), 1 462% due 2051 (index linked) and 1 46% due 2056 (index linked) issued by the subsidiary company Yorkshire Water Services Finance Plc The liabilities under these guarantees amounted to £200m, £112m (after inflation is added to the principal of £100m), £128m (after inflation is added to the principal of £125m) and £128m (after inflation is added to the principal of £125m) respectively at 31 March 2007

22. 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

Contributions over the year ended 31 March 2007 were paid by members at 3%, 4%, 4 5% or 6% of pensionable pay (depending on benefit category) The company contributed at 475% of members contributions during the accounting year in respect of the majority of members Part of this contribution for the current accounting year was paid in advance in March 2006 The company also made a special contribution of £47m on 29 March 2007

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

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 The company's total pension charge for the year was £60 7m, which includes a special contribution of £47m disclosed as an exceptional operating charge (see note 2) Excluding the exceptional operating pension charge of £47m, the company's normal operating pension charge was £13 7m (2006 £13 9m) At 31 March 2007 the company had outstanding contributions of £2 9m (2006 £1 3m)

An accrual for unfunded benefits of £1 4m at 31 March 2007 (2006 £1 5m) has been included in the company's accounts

The financial position of the scheme at 31 March is shown below, along with the principal assumptions

Scheme assets and liabilities

	Market value (£m)			
	2007	2006	2005	2004
Market value of assets				
Equities	**493.9**	517 4	379 5	426 0
Bonds	**233.5**	142 5	156 9	60 3
Property	**78.9**	49 9	-	-
Other	**11.6**	21 9	12 0	14 0
	817.9	731 7	548 4	500 3
Present value of scheme liabilities	**(810.6)**	(793 8)	(626 8)	(587 0)
Pension asset/(deficit) before deferred tax	**7.3**	(62 1)	(78 4)	(86 7)
Deferred tax	**(2.2)**	18 6	23 5	26 0
Net pension asset/(deficit)	**5.1**	(43 5)	**(54.9)**	**(60.7)**

	Expected long term rate of return (%)			
	2007	2006	2005	2004
Equities	**7.15**	6 85	7 30	7 35
Bonds	**4.71**	4 43	4 80	5 00
Property	**7.15**	6 85	-	-
Other	**4.40**	4 10	4 55	4 60

Major assumptions

	2007	2006
Inflation	**3.0%**	2 7%
Rate of increase in salaries	**4.2%**	3 9%
Rate of increase to pensions in payment and deferred pensions	**3.0%**	2 7%
Discount rate for scheme liabilities	**5.3%**	4 9%
Life expectancy of male pensioner aged 60 (years)	**23.0**	23 0
Projected life expectancy at age 60 for male aged 40 (years)	**25.9**	25 9

23. 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

24. 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)

25. 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

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	*Sales to related party* £000	*Amounts owed from related party* £000
Brey Services Ltd		
2007	275	350
2006	265	152

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

26. SEGMENTAL INFORMATION

The Regulatory Accounting Information, commencing at page 43 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

27. SHARE-BASED PAYMENTS

Share options

The employee share option plans are open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant less 20% The options will vest if the employee remains in service for the full duration of the options scheme (either 3 or 5 years) There are no cash settlement alternatives

	Options 2007	**Weighted average exercise price** 2007 £	*Options* 2006	*Weighted average exercise price* 2006 £
Outstanding at the beginning of the year	**2,569,963**	**4.50**	2,788,547	3 65
Granted during the year	**426,748**	**7.41**	651,201	5 88
Lapsed during the year	**(152,160)**	**4.77**	(62,493)	3 81
Exercised during the year	**(580,007)**	**3.29**	(807,292)	3 15
Outstanding at the end of the year	**2,264,544**	**5.36**	2,569,963	4 50
Of which exercisable at the end of the year	**45,114**	**3.44**	46,382	3 14

The weighted average share price at the date of exercise for share options exercised during the year was £8 56 (2006 £7 98)

The options outstanding at 31 March 2007 had a weighted average exercise price of £5 36 and a weighted average remaining contractual price of 2 3 years

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model The inputs to the Black Scholes model are as follows

	2007	2006
Share price at date of grant	**926p**	735p
Exercise price	**741p**	588p
Expected volatility	**25%**	25%
Expected life	**3 and 5 years**	3 and 5 years
Risk free rate	**5.08%**	4 56%
Expected dividends	**31p**	30p

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

Long term incentive plan (LTIP)

Awards under the LTIP have 2 separate vesting conditions, both of which are dependent on market-based conditions The market-based conditions of the award are taken into account in valuing the award at the grant date by applying the probability that the LTIPs will vest to the current market price of the group's shares At each subsequent balance sheet date the group revises its estimate of the number of employees who will receive awards It recognises the impact of the revision of original estimates, if any, in the profit and loss account and a corresponding adjustment to equity over the remaining vesting period

70% of the full value of the LTIPs will vest based on the company's total shareholder return (TSR) performance over the performance period (3 years) The group's share performance will be compared with reference to the 6 listed water companies At the end of the performance period the TSR of all 7 companies will be calculated, and the results ranked Full vesting will require top ranking and, if Kelda is ranked between median and top position, between 30% and 100% of the shares will vest depending on how close Kelda's TSR is to the first and fourth companies

For the remaining 30%, the group's TSR will be compared to the constituents of the FTSE 350 index No shares will vest unless Kelda is ranked at least median 30% vest at median and 100% will vest if Kelda is in the top 20% of companies, with pro-rata vestings based on ranking position for intermediate performance

		2007		*2006*
	LTIPs	***Weighted average fair value***	*LTIPs*	*Weighted average fair value*
		£		£
Outstanding at the beginning of the year (adjusted)	**489,500**	**2.64**	515,787	2 86
Granted during the year	**137,125**	**2.78**	148,344	2 43
Lapsed during the year	**(123,245)**	**3.13**	(122,392)	3 04
Vested during the year	**(92,662)**	**3.40**	(52,239)	3 45
Outstanding at the end of the year	**410,718**	**2.33**	489,500	2 64

28. SUBSEQUENT EVENTS

Since 31 March 2007 the company's subsidiary undertaking, Yorkshire Water Services Finance plc, has issued £600m of bonds guaranteed by the company

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LIMITED

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 28 These financial statements have been prepared under 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
The directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the directors' report is consistent with the financial statements The information given in the directors' report includes that specific information presented in the business review that is cross-referred from the business review section of the directors' report

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

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Leeds

4 July 2007

Regulatory Accounting Information 2007

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Explanatory note

Pages 44 to 68 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

The prior year balance sheet has been restated in accordance with new Regulatory Accounting Guideline 3 06 (Guideline for the contents of regulatory accounts) in order to provide relevant comparative figures

Historical Cost Profit and Loss Account

for the year ended 31 March 2007

		2007			2006		
			Non-			Non-	
		Appointed	appointed	Total	Appointed	appointed	Total
		£m	£m	£m	£m	£m	£m
Turnover		740.9	9.3	750.2	693 9	10 8	704 7
Operating costs		(359.4)	(7.3)	(366.7)	(293 6)	(9 3)	(302 9)
Historical cost depreciation		(115.6)	(0.2)	(115.8)	(107 8)	-	(107 8)
Operating income		6.2	-	6.2	3 7	-	3 7
Operating profit		272.1	1.8	273.9	296 2	1 5	297 7
Other income		2.1	-	2.1	2 1	-	2 1
Net Interest		(96.9)	(0.1)	(97.0)	(81 7)	(0 1)	(81 8)
Profit on ordinary activities before taxation		177.3	1.7	179.0	216 6	1 4	218 0
Taxation	- current tax	(44.4)	(0.6)	(45.0)	(52 3)	-	(52 3)
	- deferred tax	13.2	-	13.2	(13 8)	-	(13 8)
Profit on ordinary activities after taxation		146.1	1.1	147.2	150 5	1 4	151 9
Dividends	- interim	(31.9)	-	(31.9)	(32 5)	-	(32 5)
	- efficiency	-	-	-	(161 0)	-	(161 0)
	- special interim	(717.0)	-	(717.0)	-	-	-
	- prior year final	(78.0)	-	(78.0)	(74 8)	-	(74 8)
Retained (loss)/profit for the year		(680.8)	1.1	(679.7)	(117 8)	1 4	(116 4)

The accounting policies set out on pages 18 to 21 apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets and the investment in The York Waterworks Ltd (explained in Note 1 on page 50)

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

year ended 31 March 2007

There are no other recognised gains and losses arising other than the profit for the year of £146 1m (2006 £150 5m)

Historical Cost Balance Sheet

as at 31 March 2007

	2007 Appointed £m	2007 Non-appointed £m	2007 Total £m	2006 (restated) Appointed £m	2006 (restated) Non-appointed £m	2006 (restated) Total £m
Fixed assets						
Tangible assets	3,867.4	4.7	3,872.1	3,688 4	5 2	3,693 6
Investment-other	11.4	-	11.4	12 4	-	12 4
	3,878.8	4.7	3,883.5	3,700 8	5 2	3,706 0
Current assets						
Stocks	0.5	-	0.5	0 4	-	0 4
Debtors	135.5	1.7	137.2	134 7	2 7	137 4
Cash	-	-	-	0 1	-	0 1
Short term deposits	80.0	-	80.0	-	-	-
	216.0	1.7	217.7	135 2	2 7	137 9
Creditors: amounts falling due within one year						
Overdrafts	(2.3)	-	(2.3)	-	-	-
Infrastructure renewals accrual	(9.2)	-	(9.2)	(1 8)	-	(1 8)
Creditors	(227.9)	(0.2)	(228.1)	(217 7)	(0 6)	(218 3)
Borrowings	(737.4)	(0.1)	(737.5)	(73 6)	(2 6)	(76 2)
Corporation tax payable	(44.3)	(0.6)	(44.9)	(49 1)	-	(49 1)
	(1,021.1)	(0.9)	(1,022.0)	(342 2)	(3 2)	(345 4)
Net current liabilities	(805.1)	0.8	(804.3)	(207 0)	(0 5)	(207 5)
Total assets less current liabilities	3,073.7	5.5	3,079.2	3,493 8	4 7	3,498 5
Creditors: amounts falling due after more than 1 year						
Borrowings	(1,752.2)	-	(1,752.2)	(1,477 7)	-	(1,477 7)
Other creditors	(89.9)	-	(89.9)	(87 3)	-	(87 3)
	(1,842.1)	-	(1,842.1)	(1,565 0)	-	(1,565 0)
Provisions for liabilities and charges						
Deferred tax provision	(201.6)	-	(201.6)	(214 8)	-	(214 8)
Deferred income – grants and contributions	(78.0)	(4.6)	(82.6)	(80 5)	(4 9)	(85 4)
Other provisions	(0.9)	-	(0.9)	(2 2)	-	(2 2)
	951.1	0.9	952.0	1,631 3	(0 2)	1,631 1
Capital and reserves						
Called up share capital	775.0	-	775.0	775 0	-	775 0
Profit and loss account	173.6	0.9	174.5	854 4	(0 2)	854 2
Other reserves	2.5	-	2.5	1 9	-	1 9
	951.1	0.9	952.0	1,631 3	(0 2)	1,631 1

Current Cost Profit and Loss Account for the Appointed Business

for the year ended 31 March 2007

	Notes	**2007 £m**	2006 £m
Turnover	5	**740.9**	693 9
Current cost operating costs	6	**(534.5)**	(459 0)
Operating income	5	**6.2**	0 4
Working capital adjustment	5	**2.4**	(1 1)
Current cost operating profit		**215.0**	234 2
Other income		**2.1**	2 1
Net interest		**(96.9)**	(81 7)
Financing adjustment		**82.2**	37 5
Current cost profit on ordinary activities before taxation		**202.4**	192 1
Taxation - current tax		**(44.4)**	(52 3)
- deferred tax		**13.2**	(13 8)
Current cost profit on ordinary activities after taxation		**171.2**	126 0
Dividends		**(826.9)**	(268 3)
Current cost loss retained		**(655.7)**	(142 3)

Current Cost Balance Sheet for the Appointed Business

for the year ended 31 March 2007

	Notes	2007 £m	2006 (restated) £m
Fixed assets			
Tangible assets	*8*	**22,725.3**	21,556 5
Third party contributions since 1989/90		**(370.2)**	(342 6)
Other operating assets and liabilities			
Working capital	*9*	**(40.1)**	(51 5)
Cash		**-**	0 1
Short term deposits		**80.0**	-
Overdrafts		**(2.3)**	-
Infrastructure renewals accrual		**(9.2)**	(1 8)
Net operating assets		**22,383.5**	21,161 6
Non operating assets and liabilities			
Borrowings		**(737.4)**	(73 6)
Non-trade debtors		**13.0**	18 0
Non-trade creditors due within one year		**(64.8)**	(49 1)
Investment - other		**11.4**	12 4
Corporation tax payable		**(44.3)**	(49 1)
Total non operating assets and liabilities		**(822.1)**	(141 4)
Creditors:amounts falling due after more than one year			
Borrowings		**(1,752.2)**	(1,477 7)
Other creditors		**(89.9)**	(87 3)
Total creditors falling due after more than one year		**(1,842.1)**	(1,565 0)
Provisions for liabilities and charges:			
Deferred tax provision		**(201.6)**	(214 8)
Other provisions		**(0.9)**	(2 2)
		(202.5)	(217 0)
Net assets		**19,516.8**	19,238 2
Capital and reserves			
Called up share capital		**775.0**	775 0
Profit and loss account		**(378.6)**	277 1
Other reserves		**2.5**	1 9
Current cost reserve	*10*	**19,117.9**	18,184 2
		19,516.8	19,238 2

Current Cost Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 Appointed £m	2007 Non-appointed £m	2007 Total £m	2006 Appointed £m	2006 Non-appointed £m	2006 Total £m
Net cash flow from operating activities	*11*	**429.5**	**2.6**	**432.1**	434 2	0 5	434 7
Returns on investments and servicing of finance							
Interest received		**5.9**	**-**	**5.9**	3 7	-	3 7
Interest paid		**(70.7)**	**(0.1)**	**(70.8)**	(57 8)	(0 1)	(57 9)
Interest in finance lease rentals		**(6.8)**	**-**	**(6.8)**	(31 5)	-	(31 5)
Net cash flow from returns on investments and servicing of finance		**(71.6)**	**(0.1)**	**(71.7)**	(85 6)	(0 1)	(85 7)
Taxation							
Tax paid		**(49.1)**	-	**(49.1)**	(19 2)	-	(19 2)
Capital expenditure and financing of investment							
Gross cost of purchase of fixed assets		**(322.8)**	-	**(322.8)**	(254 2)	(0 2)	(254 4)
Receipt of grants and contributions		**15.6**	-	**15.6**	15 6	-	15 6
Infrastructure renewals expenditure		**(41.7)**	-	**(41.7)**	(53 9)	-	(53 9)
Disposal of fixed assets		**6.3**	-	**6.3**	5 4	-	5 4
Net cash outflow from investing activities		**(342.6)**	-	**(342.6)**	(287 1)	(0 2)	(287 3)
Equity dividends paid		**(826.9)**	-	**(826.9)**	(268 3)	-	(268 3)
Net cash outflow before financing		**(860.7)**	**2.5**	**(858.2)**	(226 0)	0 2	(225 8)
Financing							
Capital element in finance lease rentals		**(62.2)**	-	**(62.2)**	(9 3)	-	(9 3)
New bank loans		**933.0**	-	**933.0**	254 0	-	254 0
Repayment of bank loans		**(15.0)**	-	**(15.0)**	(16 7)	-	(16 7)
Proceeds from share issues		-	-	-	-	-	-
Net cash inflow from financing		**855.8**	-	**855.8**	228 0	-	228 0
(Decrease)/increase in cash		**(4.9)**	**2.5**	**(2.4)**	2 0	0 2	2 2

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

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

The modern equivalent asset values arising from the last Periodic Review are incorporated in the 2006/07 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

- **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 pages 20 and 21 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. *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

3. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

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

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

Borrowings or sums lent
During the year, an amount was lent to the parent company which represented the surplus in funds at 3 month LIBOR rates At 31 March 2007, the amount lent was £80 0m In addition, £400m was borrowed from the parent company on 31 November 2006 and a further £317m on 30 March 2007, also at 3 month LIBOR rates, following the payment of special dividends of the same amounts to the parent company 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, £98 7m at 3 048%, repayable in 2033, £125m at 1 462% repayable 2051 and £125m at 1 46% repayable 2056 No other material sums were lent to or borrowed from other associated companies

Dividends paid to associated undertakings
Amounts paid to the parent company, Kelda Group plc, and the underlying dividend policy are disclosed in the Directors' Report on page 9 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 £5 1m (2006 £2 7m)

Supply of service
Details of services supplied to the Appointee by associates during the year are disclosed overleaf where these exceed a materiality level of £1m (in line with RAG 5 04 requirements) No services of a material value were provided by the Appointee to associates

Service	Associate Company	Turnover of Associate £m	Terms of Supply	Value £m
Corporate charges	Kelda Group plc	4 9	Cost allocation	3 2
Customer Services	Loop Customer Management	19 0	Cost allocation	16 9

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

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

During 2006/07 remuneration has not been paid or become due to directors as a result of any arrangements which directly link the remuneration of the directors to standards of performance in connection with the carrying out by the company of the functions of a relevant undertaker and no such arrangements were in place

The remuneration policy of the company, which is set within the context of the group's remuneration policy, is to enable directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, taking into account individual performance, responsibilities and experience Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards which may be paid in addition to a base salary

Under the annual incentive plan, each director has the opportunity to earn an annual incentive award up to a specified percentage of their salary Awards are entirely performance related At the start of the financial year the board sets challenging financial and operational performance targets When determining the actual annual incentive award for each director, the group remuneration committee considers overall business and individual performance taking account of a range of factors including financial performance and standards of performance against regulatory measures The amount of any annual incentive award is determined by and at the discretion of the group remuneration committee taking account of and making a judgement in the context of the balance of all matters relevant to overall performance The group remuneration committee believes that this is the most appropriate means of aligning directors' remuneration to performance

Awards under the long term incentive plan are based on the total shareholder return over a three year performance period of the group, compared to that of a comparator group of companies including other water and sewerage undertakers whose shares are listed on the London Stock Exchange

Information on the remuneration of directors is set out on page 23 of the statutory financial statements

5. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS
for the year ended 31 March 2007

	2007			2006 (Restated)		
	Water services £m	Sewerage services £m	Total appointed business £m	Water services £m	Sewerage services £m	Total appointed business £m
Turnover						
Unmeasured	187.4	210.4	397.8	180 8	201 7	382 5
Measured	142.4	127.4	269.8	126 8	112 9	239 7
Trade effluent	-	7.6	7.6	-	6 9	6 9
Large user and special agreement	24.8	29.0	53.8	25 3	27 9	53 2
Rechargeable works	8.5	0.1	8.6	7 2	0 4	7 6
Other sources	0.8	2.5	3.3	0 9	3 1	4 0
Total turnover	363.9	377.0	740.9	341 0	352 9	693 9
Operating income						
Current cost profit on fixed assets net of expenses	4.7	1.5	6.2	0 2	0 2	0 4
Total operating income	4.7	1.5	6.2	0 2	0 2	0 4
Working capital adjustment	1.2	1.2	2.4	(0 5)	(0 6)	(1 1)

6. ANALYSIS OF OPERATING COSTS AND ASSETS

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

Notes to the Regulatory Accounting Information

6. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2007

	Resources and treatment	Distribution	Water supply sub total	Sewerage	Sewage treatment	Sludge Treatment and disposal	Sewerage services sub total
DIRECT COSTS	£m	£m	£m	£m	£m	£m	£m
Employment costs	4 7	6 7	**11.4**	2 2	5 4	3 5	**11.1**
Power	13 2	5 6	**18.8**	2 8	15 9	4 2	**22 9**
Agencies	-	-	-	-	-	-	-
Hired and contracted services	4 6	11 4	**16.0**	7 3	9 4	9 0	**25.7**
Associated companies	-	-	-	-	-	-	-
Materials and consumables	6 4	0 2	**6.6**	0 1	1 2	3 2	**4.5**
Service charges	5 6	-	**5.6**	0 9	3 0	0 1	**4.0**
Bulk supply imports	2 9	-	**2.9**	-	-	-	-
Other direct costs	1 1	0 9	**2.0**	1 0	1 0	0 6	**2.6**
Total direct costs	38.5	24 8	**63.3**	14 3	35 9	20 6	**70.8**
General and support expenditure	11 0	12 9	**23.9**	5 0	11 9	5 8	**22.7**
Functional expenditure	49 5	37 7	**87.2**	19 3	47 8	26 4	**93.5**
BUSINESS ACTIVITIES							
Customer services			**10.3**				**11.2**
Scientific services			**5.8**				**1.9**
Other business activities			**2 1**				**1.8**
Business activities sub-total			**18.2**				**14.9**
Local authority rates			**21.1**				**12.4**
Doubtful debts			**3.4**				**3.6**
Exceptional items			**26.8**				**20.2**
Total opex less third party services			**156.7**				**144.6**
Third party services - opex			**8.9**				**0 1**
Total operating expenditure			**165.6**				**144 7**
CAPITAL MAINTENANCE							
Infrastructure renewals charge	7 2	25 7	**32.9**	16 2	-	-	**16.2**
Current cost depreciation							
- service activities	53 1	19 6	**72.7**	10 8	76 5	16 8	**104.1**
- business activities			**0.1**				**0.1**
Amortisation of grants			**(1.5)**				**(1.4)**
Amortisation of intangible assets			**1.0**				**-**
Total capital maintenance			**105.2**				**119.0**
TOTAL OPERATING COSTS			**270.8**				**263.7**
CCA GROSS MEA VALUES							
Service activities	4,155 8	4,846 9	**9,002 7**	12,014 1	1,496 7	205 6	**13,716.4**
Business activities			**3.1**				**3 1**
Service totals			**9,005 8**				**13,719.5**
Services for third parties			**-**				**-**
TOTAL			**9,005.8**				**13,719.5**

7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2006

	Resources and treatment	Distribution	**Water supply sub total**	Sewerage	Sewage treatment	Sludge treatment and disposal	**Sewerage services sub total**
DIRECT COSTS	£m	£m	£m	£m	£m	£m	£m
Employment costs	4 9	6 7	**11.6**	2 5	5 0	3 5	**11.0**
Power	9 3	3 7	**13.0**	1 8	10 1	3 0	**14.9**
Agencies	-	-	-	-	-	-	-
Hired and contracted services	4 9	13 9	**18 8**	5 9	9 1	7 5	**22.5**
Associated companies	-	-	-	-	-	-	-
Materials and consumables	5 7	0 1	**5.8**	0 1	1 0	3 3	**4.4**
Service charges	5 5	-	**5.5**	1 0	3 7	-	**4.7**
Bulk supply imports	2 8	-	**2.8**	-	-	-	-
Other direct costs	1 4	2 6	**4.0**	1 3	1 3	0 8	**3.4**
Total direct costs	34 5	27 0	**61.5**	12 6	30 2	18 1	**60.9**
General and support expenditure	10 7	13 9	**24.6**	5 8	11 3	5 5	**22.6**
Functional expenditure	45 2	40 9	**86.1**	18 4	41 5	23 6	**83.5**
BUSINESS ACTIVITIES							
Customer services			**9 2**				**9.9**
Scientific services			**5.7**				**2.4**
Other business activities			**2.0**				**1.6**
Business activities sub-total			**16.9**				**13.9**
Local authority rates			**20 5**				**10.7**
Doubtful debts			**3.5**				**3.0**
Exceptional items			-				-
Total opex less third party services			**127.0**				**111.1**
Third party services - opex			**7.5**				**0.4**
Total operating expenditure			**134.5**				**111.5**
CAPITAL MAINTENANCE							
Infrastructure renewals charge	0 3	32 6	**32.9**	14 7	-	-	**14.7**
Current cost depreciation - service activities	49 5	19 1	**68.6**	8 8	71 2	17 6	**97.6**
- business activities			**0.6**				**0.6**
Amortisation of grants			**(1.5)**				**(1.4)**
Amortisation of intangible assets			**0.9**				-
Total capital maintenance			**101 5**				**111.5**
TOTAL OPERATING COSTS			**236.0**				**223.0**
CCA GROSS MEA VALUES							
Service activities	4,726 0	4,866 4	**9,592.4**	11,582 7	2,833 0	412 5	**14,828.2**
Business activities			**11 1**				**11.1**
Service totals			**9,603.5**				**14,839.3**
Services for third parties			-				-
TOTAL			**9,603.5**				**14,839.3**

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE
as at 31 March 2007

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Gross replacement cost					
At 1 April 2006	1,936 8	19 6	7,379 6	280 7	9,603 5
RPI adjustment	93 0	0 9	354 2	12.8	460 9
Disposals	(18 1)	(0 2)	-	(17 8)	(36 1)
Additions	76 1	0 8	45 5	18 2	140 6
At 31 March 2007	**2,087.8**	**21.1**	**7,779.3**	**280.7**	**10,168.9**
Depreciation					
At 1 April 2006	918 7	7 0	-	148 9	1,074 6
RPI adjustment	44 1	0 3	-	7 1	51 5
Disposals	(18 1)	(0 1)	-	(17 7)	(35 9)
Charge for year	48 1	(0 4)	-	25 2	72 9
At 31 March 2007	**992.8**	**6.8**	**-**	**163.5**	**1,163.1**
Net book amount at 31 March 2007	**1,095.0**	**14.3**	**7,779.3**	**117.2**	**9,005.8**
Net book amount at 1 April 2006	1,018 1	12 6	7,379 6	118 6	8,528 9
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 2006	3,299 3	47 3	11,232 6	260 1	14,839 3
RPI adjustment	158 4	2 3	539 1	12 5	712 3
Disposals	(5 4)	(0 1)	-	(17 2)	(22 7)
Additions	125 2	1 8	25 6	18 2	170 8
At 31 March 2007	**3,577.5**	**51.3**	**11,797.3**	**273.6**	**15,699.7**
Depreciation					
At 1 April 2006	1,658 9	20 6	-	132 2	1,811 7
RPI adjustment	79 6	1 0	-	6 4	87 0
Disposals	(5 3)	(0 2)	-	(17 2)	(22 7)
Charge for year	77 0	0 1	-	27 1	104 2
At 31 March 2007	**1,810.2**	**21.5**	**-**	**148.5**	**1,980.2**
Net book amount at 31 March 2007	**1,767.3**	**29.8**	**11,797.3**	**125.1**	**13,719.5**
Net book amount at 1 April 2006	1,640 4	26 7	11,232 6	127 9	13,027 6

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued)

as at 31 March 2007

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
TOTAL					
Gross replacement cost					
At 1 April 2006	5,236 1	66 9	18,612 2	527 6	24,442 8
RPI adjustment	251 4	3 2	893 3	25 3	1,173 2
Disposals	(23 5)	(0 3)	-	(35 0)	(58 8)
Additions	201 3	2 6	71 1	36 4	311 4
At 31 March 2007	**5,665.3**	**72.4**	**19,576.6**	**554.3**	**25,868.6**
Depreciation					
At 1 April 2006	2,577 6	27 6	-	281 1	2886 3
RPI adjustment	123 7	1 3	-	13 5	138 5
Disposals	(23 4)	(0 3)	-	(34 9)	(58 6)
Charge for year	125 1	(0 3)	-	52 3	177 1
At 31 March 2007	**2,803.0**	**28.3**	-	**312.0**	**3,143.3**
Net book amount at 31 March 2007	**2,862.3**	**44.1**	**19,576.6**	**242.3**	**22,725.3**
Net book amount at 1 April 2006	2,658 5	39 3	18,612 2	246 5	21,556 5

9. WORKING CAPITAL

	2007	2006 (restated)
	£m	£m
Stocks	0.5	0 4
Trade debtors – measured household	13.7	9 4
- unmeasured household	22.2	20 9
- measured non-household	15.8	13 5
- unmeasured non-household	0.2	0 2
- other	3.6	4 0
Measured income accrual	39.1	32 9
Prepayments and other debtors	27.9	35 8
Trade creditors	(43.3)	(42 4)
Deferred income – customer advance receipts	(52.8)	(51 0)
Capital creditors	(60.2)	(71 6)
Accruals and other creditors	(6.8)	(3 6)
	(40.1)	(51 5)

10. MOVEMENT ON CURRENT COST RESERVE

	2007	2006
	£m	£m
Balance at 1 April	18,184.2	17,725 3
AMP adjustment	-	-
RPI adjustments		
Fixed assets	1,034.7	503 0
Working capital	(2.4)	1 1
Financing	(82.2)	(37 5)
Grants & third party contributions	(16.4)	(7 7)
Balance at 31 March	19,117.9	18,184 2

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

	2007 £m	2006 (restated) £m
Current cost operating profit	**215.0**	234 2
Working capital adjustment	**(2.4)**	1 1
Movement in working capital	**(11.4)**	4 1
Receipts from other income	**2.1**	2 1
Current cost depreciation	**175.1**	165 4
Current cost profit on sale of fixed assets	**(6.2)**	(0 4)
Infrastructure renewals charge	**49.1**	47 6
Other non-cash profit and loss items	**8.2**	(19 9)
Net cash flow from operating activities	**429.5**	434 2

12. NET DEBT ANALYSIS

	Fixed Rate	Floating rate £m	Index linked £m	Total £m
Maturity profile				
Less than one year	14 5	5 9	-	**20.4**
Between one and two years	24 7	725 4	-	**750.1**
Between two and five years	295 1	21 9	-	**317.0**
Between five and twenty years	455 5	304 9	-	**760.4**
In more than twenty years	240 0	401 7	-	**641.7**
Total borrowings	1,029 8	1,459 8	-	**2,489.6**
Overdraft				**2.3**
Short term deposits				**(80.0)**
Total net debt at 31 March 2007				**2,411.9**

13. RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS

for the year ended 31 March 2007

	Statutory UK GAAP £m	Regulatory £m	
Profit and loss account			
Operating profit	276 0	273 9	Rental income of £2 1m classified as other income in regulatory accounts
Profit before tax	179 0	179 0	Profit before tax is unaffected by this classification
Balance Sheet			
Tangible fixed assets (net book value)	3,862 9	3,872 1	FRS 15 adopted in statutory accounts does not permit infrastructure renewals accounting as required by Ofwat The accrual of £9 2m is therefore netted off fixed assets
Infrastructure renewals accrual	-	(9 2)	
Investments/intangible assets	28 0	11 4	The investment in York Waterworks of £16 6m is eliminated in regulatory accounts with a compensating entry in creditors.
Debtors	217 2	137 2	Internal loans are classified within short term deposits in the regulatory accounts but as debtors in the statutory accounts This includes £80m due within one year
Short term deposits	-	80 0	
Deferred income– grants/contributions	-	(82 6)	In the statutory accounts deferred income is included within - creditors due within one year £3 2m - creditors due after more than one year £79 4m
Borrowings - due within one year	(22 8)	(737 5)	Internal loans are classified within borrowings in the regulatory accounts but as creditors in the statutory accounts This includes £717m due within one year and £984 5m due after one year Overdrafts are also contained within short term borrowings in the statutory accounts
- due after more than one year	(767 7)	(1,752 2)	
Overdrafts	-	(2 3)	
Corporation tax payable	-	(44 9)	Corporation tax payable of £44 9m is included within creditors in statutory accounts but is itemised separately in regulatory accounts
Creditors – due within one year	(1,009 8)	(228 1)	The items described and itemised above are included elsewhere in the regulatory accounts
- due after more than one year	(1,153 8)	(89 9)	

14. REGULATORY CAPITAL VALUES AT 2006/07 PRICES

		2007 £m
Opening regulatory capital value for the year	*	3,852
Capital expenditure (excluding IRE)	*	321
Infrastructure renewals expenditure		51
Infrastructure renewals charge		(40)
Grants and contributions		(14)
Depreciation		(165)
Outperformance of regulatory assumptions (5 years in arrears)		(28)
Other adjustments		-
Closing regulatory capital value	*	**3,977**
Average regulatory capital value		**3,598**

* The table shows the regulatory capital value used in setting the price limits for the period 2006/07 to 2009/10 as published by Ofwat in April 2005, inflated to March 2007 prices, with the exception of the average RCV, which is shown at average prices The differences from the actual capital expenditure, depreciation, etc will not affect price limits in the current period Capital efficiencies will be taken into account in the calculation for the next periodic review

INTRODUCTION

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

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

This review contains additional information and disclosures on regulatory financial information

The Directors' Report in respect of the statutory accounts on page 10 sets out the principal activities of the company, subsequent events and company's policy in respect of employees, employment practices, environment and community matters

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

FINANCIAL PERFORMANCE

Key financial performance indicators

	2007	2006
Interest cover	**2.8x**	3 7x
Gearing	**71.7%**	48 7%
Net debt to Regulatory Capital Value (RCV)	**60.6%**	42 5%

Historical cost profit before tax has reduced by £39 3m (18 1%) to £177 3m and operating profit has reduced by £24 1m (8 1%) to £272 1m since 2005/06 However this is after charging an exceptional item of £47 0m, described below in atypical items, relating to pensions Excluding the impact of this item, profit before tax has increased by £7 7m (3 6%) to £224 3m, and operating profit has increased by £22 9m (7 7%) to £319 1m

Total regulated turnover for 2006/07 amounted to £740 9m, an increase of £47 0m (6 8%) over the 2005/06 total of £693 9m Main charges increased by 6 9% (£46 8m) over the previous year, primarily as a result of the weighted average charges increase of 7 7%, which included the Ofwat set K factor of 4 9% in addition to RPI This was offset by the continuing impact of meter options and economic decline affecting measured consumption In total actual income is broadly in line with the level forecast in Ofwat's final determination for PR04 The impact of meter options and lower consumption has been offset by lower than expected trade effluent decline and increases from rechargeable works

Operating costs have increased by £65 8m to £359 4m, which comprises regulated operating costs of £263.3m, an exceptional item of £47 0m relating to pensions and an infrastructure renewals charge of £49 1m Regulated operating costs have increased by £17 3m (7 0%) from the 2005/06 figure of £246 0m Rising electricity prices have continued to be a major factor, together with the operating cost effect of capital schemes and the impact of general inflation, offset by the delivery of further efficiencies The increase of £1 5m in the infrastructure renewals charge reflects the anticipated capital expenditure over the period to 2010 Depreciation increased by £7 8m, reflecting an increase in base and accelerated depreciation

The interest charge of £96 9m is £15 2m higher than 2005/06, of which £7 1m relates to the special dividends of £717 0m described above, which were immediately lent back to YW Net debt has increased by £860 7m, or £143 7m excluding the impact of the special dividends, reflecting the continuing significant capital investment programme, which accounts for the rising interest cost

The current year tax charge of £44 4m has reduced by £7 9m from 2005/06 as it incorporates the tax benefit on the £47m cash contribution to the pension scheme The reduction in deferred tax is due to changes in gilt rates affecting the discount rate

Atypical costs
An exceptional cost of £47 0m is included within operating costs which relates to a lump sum contribution of £50m made by the group to reduce its pension scheme deficit. £47 0m of this was paid by Yorkshire Water As the company continues to account for pensions on a cash contributions basis, adopting the multi-employer exemption under FRS17, the item is chargeable against profits but has been separately identified as exceptional

2006/07 included £1 6m of atypical restructuring costs, compared with £1 1m in 2005/06 Other atypical costs in 2006/07 include £0 3m energy costs relating to wet winter weather affecting raw water quality and £0 1m tankering costs related to the maintenance of rural supplies in dry summer weather conditions In addition, waste water tankering costs of £0 2m were incurred following excessive discharges from a local brewery and a further £0 1m associated with cleaning a contaminated sewer 2005/06 figures included a £1 4m atypical item in respect of 2 mesothelioma claims, where the insurance underwriter is declining to accept liability Refunds of Local Authority rates, following successful rating appeals, and related accruals amounted to £0 5m in the year (2006 £2 0m)

Donations to charitable trusts
No donations were made by the company to the Community Trust which assists customers with payment difficulties, but was donated by the parent company, Kelda Group plc

Dividends
The total dividend for the year of £826 9m includes £717 0m of special interim dividends paid to Kelda in connection with their proposed return of capital to shareholders The final dividend of 2005/06 of £78 0m and 2006/07 interim dividend of £31 9m are also included These compare with final and interim dividends of £74 8m and £32 5m respectively in 2005/06, coupled with an efficiency dividend of £161m

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

a) ensuring that proper accounting records are kept by the Appointee as required by paragraph 3 of Condition F of the Instrument and having regard to the terms of any guidelines notified from time to time by the Director to the Appointee,

b) preparing on a consistent basis in respect of each financial year accounting statements in agreement with the Appointee's accounting records and in accordance with the requirements of Condition F and any guidelines notified from time to time by the Director to the Appointee So far as reasonably practicable these should have the same content as the annual accounts of the Appointee prepared under the Companies Act 1985 Act and be prepared in accordance with the formats and the accounting policies and principles which apply to those accounts,

c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued to the Appointee from time to time

DISCLOSURE OF INFORMATION TO THE AUDITOR

As stated in the Directors' Report on page 14, as far as each director is aware there is no relevant audit information of which the company's auditor is unaware and each director has taken such steps as he or she should have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditor is aware of the information

Other Regulatory Declarations

RING FENCING

In the opinion of the Directors, the company was in compliance with paragraph 3 1 of Condition K of the Instrument of Appointment at the end of the financial year This relates to the availability of rights and assets in the event of a special administration order

DIRECTORS' CERTIFICATE – CONDITION F

The Directors declare that 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 In making this declaration, the Directors have taken into account -

a) the net worth of the company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2007 and the company's business plan for 2007/08 and the remainder of the AMP4 period,
b) the strong investment grade credit ratings in the 'A' band,
c) borrowing facilities which include significant committed undrawn bank facilities and £600m of long term debt raised in the public bond market in early 2007/08,
d) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due,
e) the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners.
f) the company's employment policies and strategy as described in detail in the Directors' Report on pages 12 and 13

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

Auditor's Report on the Regulatory Accounting Information

To the Water Services Regulation Authority and Directors of Yorkshire Water Services Limited

We have audited the Regulatory Accounts of Yorkshire Water Services Limited ("the company") for the year ended 31 March 2007 which comprise

- the regulatory historical cost financial information, itself comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the reconciliation between the statutory accounts and the regulatory historical cost financial information and related notes to the regulatory historical cost financial information numbered 1 to 4, and

- the regulatory current cost financial information, itself comprising 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 cash flow statement for the appointed business and the related notes to the current cost financial information numbered 1 and 5 to 14

This report is made, on terms that have been agreed, solely to the company and the Water Services Regulation Authority ("the WSRA") in order to meet the requirements of Condition F of the 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 WSRA 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 company's Instrument of Appointment to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the WSRA, for our audit work, for this report, or for the opinions we have formed

Basis of preparation

The regulatory financial statements have been prepared in accordance with Condition F of the company's Instrument of Appointment as a water undertaker, the Regulatory Accounting Guideline 1 04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 2 03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3 06 (Guideline for the contents of regulatory accounts) and the Regulatory Accounting Guideline 4 03 (Guideline for the analysis of operating costs and assets) and the accounting policies set out in note 1 and, in the case of the historical cost financial information under the historical cost convention

The regulatory financial statements 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 financial statements accounts because the Regulatory Accounting Guidelines 1 04, 2 03, 3 06 and 4 03 specify alternative treatment or disclosure in certain respects Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the WSRA, the directors and auditors

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

The Directors' responsibilities for preparing the regulatory financial statements in accordance with the

Regulatory Accounting Guidelines 1 04, 2 03, 3 06 and 4 03 are set out in the Statements of Directors' Responsibilities

Our responsibility is to audit the regulatory financial statements in accordance with International Standards on auditing (UK and Ireland), except as stated in the 'Basis of audit opinion' below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'

We report our opinion as to whether the regulatory historical cost financial information present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2 03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3 06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4 03 (Guideline for the analysis of operating costs and assets), and whether the regulatory current cost financial information have been properly prepared in accordance with Regulatory Accounting Guideline 1 04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 We also report to you if, in our opinion, the company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06, and Regulatory Accounting Guideline 4 03

We read the other information contained in the regulatory financial information, 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 Regulatory Operating and Financial Review and Other Regulatory Disclosures and Other Regulatory Declarations as required by the Director General of Water Services

Basis of audit opinion

We conducted our audit in accordance with International Standards on auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory 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 regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error However, as the nature, form and content of the regulatory financial statements are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under 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 we are required to state to them in a Statutory auditors' 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 financial information have been drawn up in accordance with Regulatory Accounting Guideline 3 06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied The effect of this departure from Generally Accepted Accounting Principles and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given in the reconciliation between the statutory financial statements and the regulatory historical cost financial information

Opinion

In our opinion the regulatory financial statements of the company for the year ended 31 March 2007 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines 1 04, 2 03, 3 06 and 4 03 issued by the WSRA and the accounting policies set out in note 1 to the historical and current cost financial information, the state of the company's affairs at 31 March 2007 on a regulatory historical cost and regulatory current cost basis, the regulatory historical cost and regulatory current cost profit for the year and the regulatory current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies

In respect of this information we report that in our opinion

a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the Instrument of Appointment,

b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,

c) the regulatory historical cost financial information present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,

d) the regulatory current cost financial information have been properly prepared in accordance with Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor, Leeds

4 July 2007