

Registered Number 2366682

YORKSHIRE WATER SERVICES LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended
31 March 2010



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A16 19/11/2010 482
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**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

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Business Review

CHAIRMAN'S REVIEW

It has been another successful year for Yorkshire Water, despite the challenging economic environment and a severe winter

I am pleased to report that we met all our challenging financial targets, even managing to absorb the additional costs incurred due to the prolonged period of freezing weather which gripped the Yorkshire region over Christmas and the New Year

Despite the snow and ice, customers continued to receive extremely high levels of operational and customer service.

Our capital partners also worked diligently, often in atrocious weather conditions, to ensure the successful delivery of our annual investment programme, which last year saw us spend £262 0m on further enhancements to our assets and services

This tremendous effort saw us deliver our agreed regulatory outputs for the period 2005-2010, which included, among other things, the refurbishment of 3,315km of water mains in the region

The end of one AMP (Asset Management Plan) and the start of a new one is always a time of great change and 2009/10 was no exception

As well as ensuring we delivered on our AMP4 commitments, excellent progress was made towards ensuring that we would get the best possible start to the next five-year period from 2010 to 2015

The transition was led by Richard Flint (Chief Operating Officer), who on 1 April 2010, was promoted to Chief Executive of Yorkshire Water and the Kelda Group

Firstly, July 2009 saw the completion of the whole business securitisation of Yorkshire Water. Our ongoing strong operational performance, coupled with a new covenant package, enabled us to raise £650m of new funding, with our bond issues over-subscribed.

Three months later we received confirmation of investment programme and outputs for the period 2010 to 2015, when Ofwat announced the conclusion of its recent review of future prices and investment

Throughout the PR09 process we attempted to strike the right balance for our customers, our investors and the environment and we were pleased that Ofwat recognised this

As a result of Ofwat's decision, water and sewerage bills will fall by an average of £4 per year in the first two years of the period 2010-2015 and increase by just £1 by 2015. This will take the average bill from £331 to £332 over the period, an increase of just 20p per year above inflation. This is good news for customers and stakeholders.

In addition, Ofwat agreed our plan to invest £1.9 billion in the region over the next five years to improve services. Our investment plans are built around delivering what customers told us they wanted from us and include significant additional investment to tackle sewer flooding and improve bathing water quality on Yorkshire's East Coast. This is good news for all stakeholders.

Business Review

While we accept the outcome of Ofwat's price review, delivering our plans for 2010-15 will nevertheless be challenging

To this end, a major internal reorganisation has recently been completed to ensure we can continue to deliver industry-leading levels of financial, operational and customer service in the future

At the same time as we drove internal change, we also carried out a review of our external capital partners and introduced new, more collaborative ways of working, to maximise the potential for future capital efficiencies

All the changes outlined above have had far reaching implications for our people and our contract partners and I would like to thank each and every one of them for the patience and professionalism they have shown throughout this period of upheaval

At the end of the year, the political environment in which we operate also changed following the creation of the new coalition government. It remains to be seen exactly how this will impact on future government policy, however, we will be working with politicians and policy makers alike to actively inform their agendas

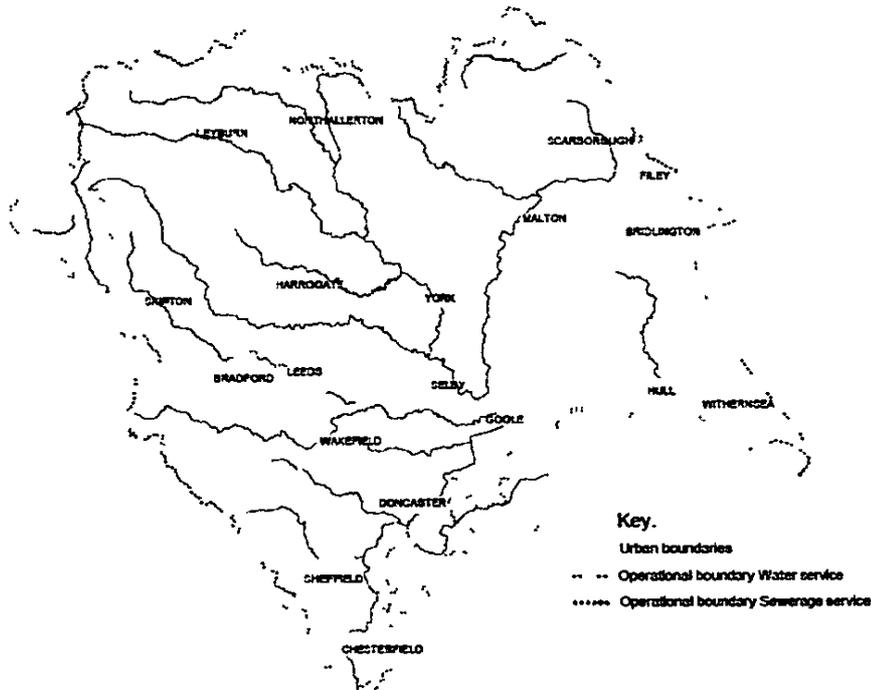
In the meantime, I'm confident that our new business model, coupled with a new capital investment programme, new capital partners and new, improved ways of working, provide a sound platform for the future

I am equally confident that financial, operational and environmental excellence remains key to unlocking opportunities and growth for Yorkshire Water

Kevin Whiteman
Chairman

Business Review

OUR BUSINESS



We serve the Yorkshire region - from Whitby in the north to Chesterfield on the edge of Derbyshire in the south, and from Bridlington on the east coast to Ingleton in the west

Yorkshire Water manages the collection treatment and distribution of the region's water. We supply around 1.3 billion litres of drinking water every day and then collect, treat and return just less than 1 billion litres of waste water safely back into the environment.

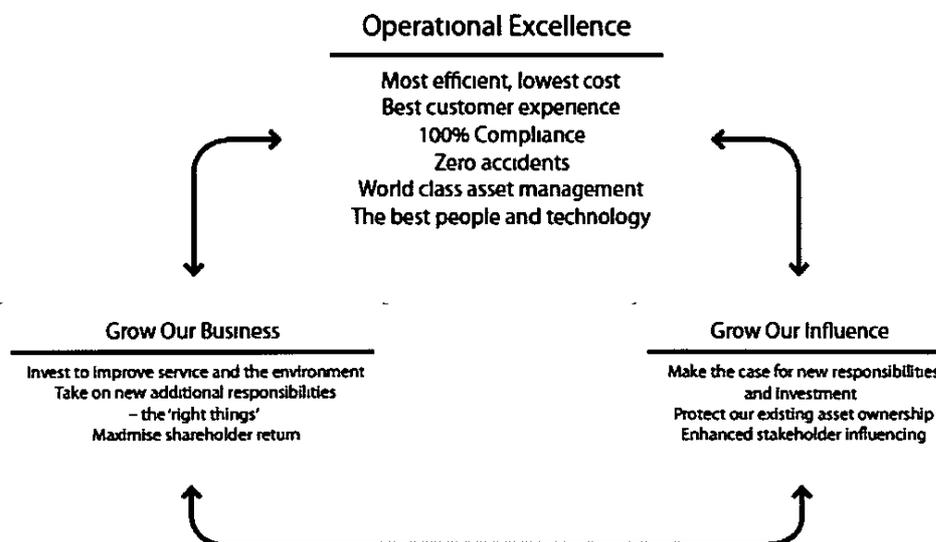
We serve a population of approximately 4.9 million people, as well as around 130,000 businesses.

Our work in managing this natural resource for the benefit of our customers and the environment requires careful, long-term planning.

Over the period 2010 to 2015 we will invest around £3.5 billion on operating and improving the region's water and sewerage infrastructure, providing a major boost to the local economy.

Business Review

BUSINESS STRATEGY



Our strategy is to be clearly the best

This means being the most efficient in everything we do, providing a consistent and seamless customer experience, embedding world class asset management, achieving 100% compliance, having a zero accident culture and developing and employing the best people and technology

This pursuit of 'operational excellence' is the foundation and cornerstone of our company's future strategy, ensuring that we are well placed to protect our existing asset ownership and to make the case for new opportunities to grow our asset base and deliver further benefits to our customers and the environment

Growing our business

We are a progressive and aspirational company and want to grow our business by taking on new responsibilities which will provide further benefits to our customers and the environment, whilst maximising returns for our investors

This will mean looking both outwardly for the right opportunities to grow, and inwardly, improving our research and development and knowledge of our asset base

The proposed transfer of private sewers in autumn 2012 is an example of the kind of new responsibilities and investment we are looking for. It fits in very well with our core focus on service and the environment, will benefit our customers and will increase the size of our asset base and therefore returns for investors.

Our focus on value and more for less will continue, ensuring we are well placed to deliver value for money to our customers, rather than simply offering the lowest price

However, it is important that we continue to 'Strike the Right Balance', a core guiding principle of our 25 year Strategic Direction Statement. While we will look to grow our

Business Review

business and deliver further social and environmental benefits, it is important that we invest in the 'right things' and we will not pursue growth as an end in itself, if the benefits to our customers and the environment are not clearly justified

Growing our Influence

To grow our business we need to be able to make the case for new responsibilities and investment with our stakeholders

New obligations, such as the transfer and adoption of private sewers, will come from influencing Government ministers, customers and regulators to support our proposals and the case for change. In the current regulatory environment, we either need new legal obligations or must be able to demonstrate to Ofwat that customers are willing to pay for the resulting service improvements

This activity involves tracking, understanding, assessing and mapping external issues, quantifying the extent of the opportunities and threats and understanding the views and wants of stakeholders and regulators. Based on this analysis, it will then be possible to prioritise issues and develop policy positions and influencing strategies to deliver them.

We must also protect our existing asset ownership. The company's strategy has provided value for all over recent years and demonstrated the benefits to customers, investors and the environment of integrated asset ownership.

Business Review

OPERATIONAL PERFORMANCE

The past year has been a period of significant change at Yorkshire Water (YW), as the company has sought to fulfil its outstanding AMP4 commitments, whilst ensuring the best possible start to AMP5

The conclusion of the periodic review (PR09) price review gave the green light for a major restructuring of the business to ensure we remain fit for the future and can deliver a step change in our financial, service and environmental performance over the next five years

Operational excellence remains the key to unlocking new opportunities - opportunities for our people, opportunities for our customers and stakeholders, opportunities for our contract partners and opportunities for us to grow our influence and ultimately our business

Our new business model, coupled with a new capital investment programme, new contract partners and new, improved ways of working, provide a sound platform on which to achieve our vision - to be clearly the best water company in the UK

Key performance indicators

	Target	Current year	Previous year
Overall customer satisfaction	95%	92%	88%
Overall drinking water quality	99.975%	99.961%	99.975%
Waste water treatment works compliance	100%	100%	100%
Accidents -			
- major and over 3 day accidents	15	11	26
- all accidents	75	135	152

Explanation of measures provided in Appendix to Business Review on pages 16 and 17

Value

The company's financial performance is described in detail on page 10

Our aim is to be clearly Ofwat's frontier company for financial performance and to outperform our targets.

In July 2009 we completed the whole business securitisation of YW, establishing a stable future financial platform for the company

The securitisation provides lenders with a strong package of protections, thus enabling us to increase our borrowings to facilitate a more cost-effective capital structure. In the medium term, this will enable the company's debt to regulatory capital value (RCV) ratio to increase from its current level of 65% to 84%

The strong operational performance of YW, coupled with the strength and clarity of a new covenant package, enabled us to raise £650m of new funding, with our bond issues oversubscribed

In November 2009, we received our Final Determination from Ofwat which confirmed our investment levels and prices for the next five years

Business Review

Throughout the PR09 process we sought to strike the right balance for our customers, our investors and the environment

Delivering our £1.9bn investment plan for 2010 to 2015 will be challenging, but the Final Determination has given us a good foundation on which to push on and deliver better customer service and financial performance during AMP5

Customer service

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

We were ranked third in Ofwat's Overall Performance Assessment for 2008/09 which benchmarks our performance against other water and sewerage companies across the UK. We have now consistently been ranked in the top four since 2000/01

According to the report we scored maximum points in the area of customer contacts, which includes billing contacts, complaint and call handling and meter reading. This saw us rise from sixth to joint first

We also achieved maximum points for our performance relating to Category 1 and 2 water and waste water pollution incidents

Unfortunately we dropped from first to second regarding the number of properties experiencing low water pressure, which ended our eight year run at the top of the industry

Between December 2009 and February 2010, the Yorkshire region was hit by the worst winter weather for 30 years which put significant pressure on our field teams and service partners as they tackled a significant increase in bursts and frozen pipes. This led to January 2010 being the busiest month for operational calls since the floods of June 2007

Our meter-reading programme was also severely hampered, however effective resource planning ensured it was back on track by the end of the year

In February 2010, we took a major step forward in our bid to improve our customers' billing experience. Approximately 1.2 million unmeasured customers were sent new-look water bills which are simpler to read and easier to understand. The bills include new features such as personalised customer messages about what's happening in their area and updated questions and answers based on the most common reasons for customer calls.

Overall customer satisfaction for the year was 92%, a 4.5% increase on 2008/09

Environmental performance and compliance

Our aim is to work with our partners and regulators to achieve 100% compliance with our legal and regulatory targets

We achieved 100% compliance with discharges from our waste water treatment works and recorded our lowest ever number of Category 1 and 2 pollution incidents.

While water quality continued to improve in 2009, there was an increase in the number of compliance incidents due to the introduction of new monitoring for the pesticide metaldehyde.

Business Review

The percentage of Sites of Special Scientific Interest (SSSIs) on Yorkshire Water land in either 'recovering' or 'better' status rose to 98.8%, after Natural England approved three land restoration management agreements in the South Pennines. This means we have already surpassed the statutory 95% target which Defra set for the end of 2010, which is a fantastic achievement.

Social impact

Our aspiration is to ensure that society recognises the important role we have to play in local communities and people's lives.

In 2009 we launched a major campaign to raise greater public awareness of the scale, importance and complexity of our operations and what good value for money our customers' water charges represent.

We adopted an open door approach and invited people to come along and visit eight of our water and waste water treatment works. Over a period of 61 days, more than 10,100 customers passed through our gates, along with 272 key stakeholders and an equal number of our colleagues and service partners. Research showed that 83% of customers and stakeholders described the overall experience as 'excellent', with 96% saying it had improved their perception of Yorkshire Water.

Challenges remain around people's perception of value for money and in February 2010 we launched a brand new television campaign to help explain to customers what they get for their money.

During the year we have also focused on growing our influence and over the 12 months we met with all of our key stakeholders, generating opportunities to influence and engage on key issues such as the transfer of private sewers, Sludge Phyto-Conditioning (SPC) and the Flood and Water Management Bill.

Our flagship volunteering initiative, One Million Green Fingers, has continued to engage the business and provide a useful tool for leadership development and team building, involving around 30% of colleagues in volunteering over the year. In addition, Yorkshire Water's new environmental visitor centre at Esholt Waste Water Treatment Works in Bradford was officially opened by the then Secretary of State for the Environment, Hilary Benn MP. More than 1,000 children and adults have already visited the new centre to learn about the waste water treatment process and our focus on renewable energy.

Employees

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

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

We continued our focus on leadership development, with 80 senior leaders taking part in the 'Performance Through Leadership' programme.

Business Review

Employees' welfare continues to be a top priority for the business, with 11 incidents reported to the Health and Safety Executive in 2009/10, compared to 26 the previous year

Partners

Our aspiration is to work with our partners to deliver a better service, increased efficiency and healthy profits for all, while ensuring the safety of our people and customers

The challenge in 2009/10 was to ensure the successful delivery of our AMP4 capital investment programme, at the same time as giving ourselves the best possible start to AMP5. We achieved this.

The AMP4 capital programme was completed successfully, with all financial targets met or out-performed.

Under the leadership of a specially created transition team, we also completed a robust contract tendering process to select our AMP5 partners. Going forward, we will be working with our contract partners to implement a new system of batching and streaming work, a significant departure from our previous scheme-by-scheme approach.

As well as selecting our contract partners, we also re-tendered the contracts for our technical and commercial consultants and modelling work.

All our new partner organisations are now co-located at the new Asset Delivery Unit in Leeds, a move which is already delivering benefits in terms of improved efficiency and better communication.

The official opening of the new Asset Delivery Unit was carried out by the then Secretary of State, Ed Balls MP, who also unveiled an economic assessment report showing that for every £1 we spend, a further 90p of wealth is generated in the local economy - this means that over the next five years our £1.9 billion investment in infrastructure and £1.5 billion in operating expenditure will generate over £6bn of economic activity in Yorkshire.

Business Review

FINANCIAL PERFORMANCE

Key financial performance indicators

	2010	2009
Operating profit (£m)	373.5	343.1
Net debt (£m)	3,074.1	2,839.4
Net debt to Regulatory Capital Value (RCV)	67.5%	65.7%

Explanation of measures provided in Appendix to Business Review on page 16

Financial performance

Turnover increased by 3.7% to £869.4m (2009: £838.4m), compared with an average tariff increase of 5.5%. There was a decline in demand for water from measured domestic and business customers during the year, reflecting the continued challenging economic environment. Operating profit increased by 8.9% to £373.5m (2009: £343.1m). Of the £869.4m, £409.3m related to water services, £449.9m related to sewerage services and £10.2m was from non-appointed business.

Total operating costs, before exceptional items, increased by £9.6m to £493.7m (2009: £484.1m), with regulated operating costs (total operating costs excluding exceptional items and depreciation) increasing by £4.5m to £297.5m, £1.5m of which relates to the impact of general inflation, which averaged at 0.5% for the year. The cost of bad debts increased by £1.6m from 2009/10 as a result of additional write-offs reflecting the deterioration in collections from customers due to the current economic climate. In addition, chemical costs have continued to increase by a further £0.6m, non-domestic rates have increased by £2.6m, atypical costs as a result of the severe weather experienced during January and February have totalled £2.4m and the operating cost impact of new capital investment has risen by £2.1m. However, these increases have been mitigated to some extent by continued efficiencies driven throughout the business and an £8.7m reduction from lower energy prices and energy consumption initiatives.

During the year there were exceptional impairment costs of £42.1m (2009: £nil). This followed a share capital injection into Yorkshire Water Services Odsal Finance Holdings Ltd to enable the payment of accrued interest on exchanged bonds on completion of the whole business securitisation of YW and the subsequent impairment of this investment. These are disclosed within other financing costs due to their link with the whole business securitisation.

Net interest payable increased from £76.7m in 2008/09 to £167.0m in 2009/10 following the close of the whole business securitisation during the year and subsequent increases to coupons on existing debt and new debt raised during the year. The movement from 2008/09 also reflects the benefit gained during that year from net interest received on £1.3bn of index-linked swaps held by the business, which amounted to £60.4m. During 2009/10 a fall in relevant interest rates, including LIBOR, led to a reversal of this position and there was a net payment of interest on the swaps of £10.8m during the year.

The tax charge on profit on ordinary activities reduced by £76.0m to £38.3m (2009: £114.3m), reflecting lower taxable profits driven largely by the exceptional costs and interest payable.

Business Review

Regulated capital investment for the year was £262.0m (2009: £362.3m). This is below the level assumed in Ofwat's Final Determination of prices due to the delivery of efficiencies.

Capital structure

On 24 July 2009 the whole business securitisation (WBS) of YW and its subsidiary companies was completed, providing a permanent and stable platform from which the long term financing of the business can be delivered. All existing and future debt raised by YW will benefit from common terms, as set out in the Common Terms Agreement (CTA) and the securities contained in the Security Trust and Inter-creditor Deed.

In the period before the close of the WBS, £2.3bn (98%) of existing debt migrated into the newly created YW Financing Group. This group includes YW and three subsidiary companies: Yorkshire Water Services Finance Ltd (formerly Yorkshire Water Services Finance plc), Yorkshire Water Services Odsal Finance Holdings Ltd (Odsal Holdings) and Yorkshire Water Services Bradford Finance Ltd (YWSBF). Odsal Holdings is the parent company of Yorkshire Water Services Odsal Finance Ltd. In future, all new bond issues will be carried out on behalf of YW by YWSBF.

Following the close of the WBS YW raised £650m of new debt through bond issuance. Three tranches of Class A bonds were raised: £275m, 10 year fixed rate, £200m, 30 year fixed rate, and £175m, 30 year index linked. The Class A bonds issued under the securitisation programme also benefited from 'A' grade ratings from each of Fitch ("A"), Moody's ("A3") and Standard & Poors ("A-").

The debt restructuring which followed the close resulted in £3,074.1m of net debt within YW at 31 March 2010 (2009: £2,839.4m) and in turn this led to an increase in the net debt to RCV ratio to 67.5%, from 65.7%. This was calculated using an RCV at 31 March 2010 of £4,556m (2009: £4,321m).

Dividend payments were £211.0m during the year (2009: £311.6m). No final dividend is proposed in respect of 2009/10.

At 31 March 2010 YW had profit & loss account reserves of £756.5m (2009: £840.8m).

Accounting policies

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

Treasury policy

The company's treasury operations are controlled centrally for the group by a treasury department which operates on behalf of all companies controlled by the ultimate parent. Activities are carried out in accordance with approved board policies, guidelines and procedures. Treasury strategy is designed to manage exposure to fluctuations in interest rates, preclude speculation and to source and structure the group's borrowing requirements.

The group uses a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance its operations. Any funding required is raised by the group treasury department in the name of the appropriate company, operating within the covenants contained within the CTA. Funds raised may be lent to or from the company at commercial rates of interest. Cash surplus to operating requirements is invested in short

Business Review

term instruments with institutions having a long term rating of at least A- or A3 and a short term rating of at least A1 or P1 issued by Standard and Poor's and Moody's respectively

LOOKING FORWARD

On 1 April 2010, YW restructured the operational business into two new areas Production and Customer Service & Networks and concentrated capital delivery into a new Asset Delivery Unit (ADU)

We believe that these changes, together with further investment in our people and technology, will help to create the right platform for further significant improvements in customer service, asset management and capital out-performance



Customer Service & Networks

Our new business unit will allow us to

- Operate a water and sewerage network which we truly understand and can monitor and operate in 'real time'
- Provide a consistent service to our customers, breaking the current paradigm which has tended to split the customer's property in half with separate clean and waste water services
- Bring together all of our operational customer service teams into one business unit to deliver a consistent, seamless customer experience
- Deliver seamless contract management, with operational contracts managed together and with a single interface to Loop Customer Management Ltd

Business Review

Production

The new business unit will allow us to

- Operate and control as one single production unit the 32 water and 18 'Shining Star' waste water treatment works which together make up 80% of our total throughput and 75% of our energy consumption
- Develop the most up-to-date innovation, process technologies and asset management techniques to ensure that we maintain, monitor and understand our production assets
- Bring together all of our renewable energy production into one business unit, allowing focused energy strategies and asset improvement plans to develop

Asset Delivery Unit

The new focus on asset delivery in a single team will allow us to

- Build high quality assets which work, allowing the operational business to achieve regulatory compliance and deliver consistently high levels of customer service
- Efficiently manage the delivery of £1.9bn of capital investment during AMP5 in close collaboration with partner organisations
- Deliver significant savings and out-performance, providing enhanced returns for our investors and allowing the business the opportunity to re-invest in further service and environmental improvements.

PRINCIPAL RISKS AND UNCERTAINTIES

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

We classify principal risks in six categories:

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

Changes to the regulatory environment

Transfer of private sewers

The private to public sewer transfer is due in autumn 2012. Many details (notably timing, funding, cost allocation, performance reporting and prosecution risks) remain to be resolved and will demand significant attention. This would represent a significant change to our asset base and responsibilities for some 22,000km of sewers within the Yorkshire region.

Business Review

Revised Bathing Water Directive

In Yorkshire we have some of the most popular coastal resorts in the UK, over 80 miles of coastline and 'award winning' blue flag beaches. By 2015 the revised Bathing Water Directive comes into force, requiring more stringent standards to be met for bathing water quality at the 21 beaches in Yorkshire.

Service Incentive Mechanism

In April 2010, Ofwat's new Service Incentive Mechanism (SIM) was introduced. The Ofwat OPA performance measures are expected to be replaced with the SIM as the high profile performance metric, although most (if not all) of the OPA are expected to survive as output measures.

Changes in legislation

Environmental legislation

Government and European policy is increasingly focused on the environmental agenda, which creates both opportunities and challenges for YW. New discharge standards continue to be a possibility, although the recent European Court decision to not designate the Humber Estuary as a sensitive zone means that new large scale European legislation is not imminent. However, there are a number of directives in the pipeline, focusing on drinking water standards and levels of service.

A new Government

Prior to the recent General Election, the Conservatives promised a wide-ranging White Paper on water industry issues. The formation of a coalition Government means that policy changes are likely and the development of a new set of stakeholder relationships will be required.

Flood and Water Management Act

The Flood and Water Management Act received Royal Assent on 8 April 2010. The Act is designed to provide better, more comprehensive management of flood risk for people, homes and businesses. It is also intended to help tackle bad debt in the water industry, improve the affordability of water bills for certain groups and individuals, and help ensure continuity of water supplies to consumers.

Climatic changes

Carbon Reduction

The Carbon Reduction Commitment (CRC) emissions cap and trading scheme came into operation in April 2010, requiring reporting of emissions for the first year and preparation for purchasing CRC allowances from 2011/12. YW has a large and growing carbon exposure and based on current estimates, the trading scheme will increase Yorkshire Water's costs.

Natural England

Revised planning guidance for developers and local authorities to deal with flooding risk (PPS25) will come into force during 2010/11, and is expected to be followed by further revisions to guidance to take account of the Flood and Water Management Act. Natural England has launched an initiative to develop its vision and strategy for upland management to 2060, much of which will impact YW.

Water consumption

Over the past few years local businesses and some domestic customers have made increasing efforts to manage and reduce their water consumption. Although the key driver of annual consumption remains weather patterns (e.g. hot, dry summers and cold winters)

Business Review

water conservation is increasingly the norm and may place further downward pressure on water consumption and YW's income

The apparent changes to national and local weather patterns and the increasing frequency of flooding over the past ten years is forecast to continue and will require operational responses from YW which can adapt to the changing circumstances

Changes in technology

E-communications

Increasingly organisations are quickly brought to account by customers and the media. This trend has been assisted by the development of social networking sites like Facebook, which allow pressure groups to form quickly. Dealing with this new form of dialogue and engagement will be an increasing challenge for our corporate communications over the next five years.

Over the last 5 years we have seen a 20% year on year increase in YW website usage, with customers paying bills and submitting meter readings online.

Telemetry

As technology develops Yorkshire Water should see continuing operational opportunities in the fields of remote asset monitoring, control and maintenance.

Social influences

Affordability

10-12% of our customers are likely to be in water poverty (defined as spending more than 3% of disposable income on water) and as prices rise this proportion will increase. Addressing the issue of water affordability will be essential if we are to persuade legislators, regulators and customers to support increased investment.

Public confidence

The public are increasingly likely to demand more involvement and a stronger say in the provision of their public services including water, which creates both opportunities and risks for YW. Public activism will be highly relevant as we attempt to create advocacy to drive further investment and solve customers' problems.

The skills agenda

Increasingly YW has found it challenging to recruit new employees with appropriate skills and experience for specific parts of the business. Engineering and operational skilled labour is increasingly difficult to recruit as the pool of potential recruits shrinks, particularly those with science, technology, engineering and maths qualifications.

Bad debt

High unemployment levels continue to impact our customers and increase issues of affordability and customer debt.

Supplier markets

A global economy

The national and international economic uncertainties may put pressure on Yorkshire Water's input costs. In March 2010 a new, five-year pay award was agreed with our unions and this was negotiated against a backdrop of rising inflation and job insecurity. Energy costs are likely to continue to fluctuate over the next few years as economic recoveries run at different paces around the world.

Business Review - Appendix

KPI Glossary of Terms

FINANCIAL KEY PERFORMANCE INDICATORS

Operating profit

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

Net debt

Net debt reflects the value of loans and finance leases owed to third parties and other companies within the group, offset by available 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 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.

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

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

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

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

Water quality

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

Business Review - Appendix

KPI Glossary of Terms

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

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

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

Waste water treatment works compliance

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

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

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

Reportable and notifiable accidents

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

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

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

Directors' Report

For the Year Ended 31 March 2010

The directors present their report and the audited financial statements of the company for the year ended 31 March 2010

Financial results for the year

Profit for the year was £126 1m (2009 £152 1m)

Business review

A review of the development and performance of the business of the company, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the company are set out in the business review on pages 1 to 17

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

Principal activities

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

Directors

The directors who served during the year and up to the date of signing these financial statements, including any changes, are shown below:

Kevin Whiteman	Chairman
Richard Flint	Chief Operating Officer
Allison Bainbridge (resigned 31/3/10)	Director of Finance
Graham Dixon	
Alan Harrison	
Jonathan Hodgkin	
Julie Allan (resigned 25/9/09)	
Mark Penny (appointed 1/4/09)	

Non executive Directors

Roger Hyde
Stuart Baldwin (resigned 24/3/10)
Martin Havenhand
Juan Bejar Ochoa (resigned 13/7/09)
Kathryn Pinnock
Rhys Evenden (appointed 24/3/10)
Holly Koepfel (appointed 24/3/10)

Kevin Whiteman became non executive and Richard Flint was appointed Chief Executive with effect from 1 April 2010.

Directors' Report

For the Year Ended 31 March 2010

Jonathan Hodgkin resigned as a director on 27 May 2010

The company has directors' and officers' insurance in place

Dividends

The total dividend of £211.0m paid to YW's immediate parent company, Yorkshire Water Services Holdings Ltd, in the year included £27.8m to group companies to fund the payment of interest. This compares with £311.6m in 2008/09, which included interim dividends of £131.5m and a special dividend of £180.1m paid in August 2008 in relation to the drawdown of debt under the Senior Facilities Agreement from Saltaire Water Ltd.

No final dividend for the year is proposed.

The company's dividend policy is to

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

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

Reserves

The profit for the year of £126.1m has been transferred to the profit and loss reserve, bringing the balance held in this reserve to £756.5m (after dividends in the year of £211.0m and a £0.6m movement in the revaluation reserve).

Research and development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2009/10, £4.0m was committed to research and development including £3.2m 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 9 to the accounts and include transfers to KeyLand Developments Ltd, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by Ofwat. With

Directors' Report

For the Year Ended 31 March 2010

effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by Ofwat

Revaluation of assets

During March 2009, YW re-valued its non specialist land and buildings (i.e. non operational land and buildings, including offices and rural estates), resulting in an increase to fixed assets of £52.7m and a corresponding increase in reserves. The Manager of Land, Property and Planning, a member of the Royal Institution of Chartered Surveyors (MRICS), has reviewed the carrying value at 31 March 2010 of YW's non specialised land and buildings and considers that no impairment or uplift would be required to the accounts and the amounts booked on 31 March 2009 are not materially different to current market values.

The Directors confirm that they know of no material change to the value of YW's non specialised land and buildings to be disclosed within the accounts of YW at 31 March 2010.

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

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £262.0m (2009 £362.3m). This excludes expenditure on non-regulated activities of £0.03m (2009 £0.1m).

Payment of suppliers

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

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 43 days (28 days in 2009).

Instrument of Appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory accounts. These additional statements will be published by Ofwat's deadline of 15 July 2010.

Employees and employment policies

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

Directors' Report

For the Year Ended 31 March 2010

key to this involvement and play a major part in achieving our vision to be "Clearly the Best Water Company in the UK" and a great place to work

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

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

The company demonstrates its commitment to effective and two way communication through its information and consultation framework. In addition to collective bargaining arrangements with its recognised trade unions, communication and consultative forums take place across the company, comprising elected (union and non-union) employees who meet regularly with directors and senior managers

The company promotes freedom of association, principally through its diversity strategy. 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. YW has previously been recognised by winning the Personnel Today award for Diversity in the Workplace and has also featured as a case study on a website created by the London Development Agency for businesses in their region. A series of events has helped raise awareness about diversity including, part-time working, gender, disability, stereotypes, mental health and religious beliefs which were welcomed by managers. We have an active approach to keeping employees who become disabled in employment and our commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK Employment Service

Paramount to achieving operational excellence and out-performance is to ensure that every individual understands their role and how they can assist the company in achieving its business targets. We are committed to rewarding the right performance and we adopt a 'total reward' approach to salary and benefits which are designed to be competitive. Performance related pay gives colleagues at all levels the opportunity to share in the success of the business, through quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Looking to the future, YW focuses on proactively resourcing the business by understanding future roles and skills requirements and ensuring that plans are in place to meet our needs. Our approach includes understanding people's career aspirations, meeting development needs and actively mitigating resourcing challenges to ensure that we retain our best talent. 2010/11 will see the launch of our new apprenticeship programme which will complement our already successful graduate programme.

The company places value and emphasis on developing skills and behaviours to meet the development needs of our people, with focus on developing safety, technical, behavioural and leadership capability. It is our belief that everyone can demonstrate leadership skills. This commitment is demonstrated through our focus on leadership development for managers and senior managers across the business and the company's commitment to

Directors' Report

For the Year Ended 31 March 2010

embedding a coaching culture. This enables people to learn and grow by identifying and focusing on their own development areas. The company provides a wide range of development opportunities, including in-house and accredited programmes to help employees develop the necessary skills, knowledge, values and experience to realise their performance potential.

Health and safety

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

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

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

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

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

Our goal is to achieve zero accidents and the measures taken by the company are intended to place emphasis on prevention and continuing vigilance. YW has again been awarded a National Safety Award from the British Safety Council and a Gold Award for Occupational Safety from the Royal Society for the Prevention of Accidents for its health and safety performance during 2009/10.



BY ORDER OF THE BOARD

Kevin Whiteman

Chairman

14 July 2010

Corporate Governance Report

For the Year Ended 31 March 2010

Corporate Governance

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

The board of directors

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

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

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

At the end of the year, the YW board comprised a non executive chairman, six executive directors and five further non executive directors.

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

Kelda Holdings Ltd audit committee

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

The audit committee's key tasks include:

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

Corporate Governance Report

For the Year Ended 31 March 2010

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

In undertaking these tasks the committee receives and reviews work carried out by the internal and external auditors and their findings. Both the internal and external auditors work to an annual plan developed in consultation with the committee. In addition, the committee reviews specific business areas and processes from time to time.

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

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

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

Corporate social responsibility committee

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

Internal control

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

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

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

- The main risks facing the company are identified and recorded in a strategic risk register together with the control mechanisms applicable to each risk. These are collated from risk registers maintained by individual businesses.

Corporate Governance Report

For the Year Ended 31 March 2010

- There is clear allocation of management responsibility for risk identification, recording, analysis and control
- The audit committee reviews the effectiveness of the systems which are in place and reports to the group holding company board
- A risk management forum, chaired during the year by the group company secretary, operates with formal terms of reference comprising senior management from key disciplines and operating companies. It advises and assists operational managers and the board on the implementation of the risk management process and monitors risk on behalf of the board. It reports to the audit committee
- Business units are required to report annually on principal business risks and the operation of control mechanisms
- The internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process.

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

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

Environment

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

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

Community

The company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from governor appointments, and 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.

Corporate Governance Report

For the Year Ended 31 March 2010

Directors' statement as to disclosure of information to auditors

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

Independent auditors

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

Registered office Western House, Halifax Road, Bradford BD6 2SZ
Registered in England no 236668

Profit and Loss Account

for the year ended 31 March 2010

	Note	2010 £m	2009 £m
Turnover		869.4	838.4
Operating costs	2	(493.7)	(484.1)
Exceptional operating costs	2	(2.2)	(11.2)
Total operating costs		(495.9)	(495.3)
Operating profit	2	373.5	343.1
Net interest payable and similar charges	5	(167.0)	(76.7)
Non operating exceptional costs	4	(42.1)	-
Net interest payable and similar charges		(209.1)	(76.7)
Profit on ordinary activities before tax		164.4	266.4
Tax on profit on ordinary activities	6	(38.3)	(114.3)
Profit for the financial year	18	126.1	152.1

All of the above results relate to continuing activities

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

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2010

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

Balance Sheet

as at 31 March 2010

	Note	2010 £m	2009 £m
Fixed assets			
Intangible assets	8	8.5	9.4
Tangible assets	9	4,280.0	4,224.5
Investments	10	0.1	16.7
		<u>4,288.6</u>	<u>4,250.6</u>
Current assets			
Stock	11	1.1	0.8
Debtors falling due within one year	12	240.7	172.4
Debtors falling due after more than one year	12	296.7	296.7
Debtors	12	537.4	469.1
Cash and short term deposits	14	58.8	18.4
		<u>597.3</u>	<u>488.3</u>
Creditors: amounts falling due within one year			
Short term borrowings	14	(39.6)	(31.6)
Other creditors	13	(443.8)	(318.8)
		<u>(483.4)</u>	<u>(350.4)</u>
Net current assets		<u>113.9</u>	<u>137.9</u>
Total assets less current liabilities		4,402.5	4,388.5
Creditors: amounts falling due after more than one year			
Long term borrowings	14	(688.4)	(1,185.1)
Other creditors	13	(2,374.9)	(1,757.9)
		<u>(3,063.3)</u>	<u>(2,943.0)</u>
Provisions for liabilities and charges	16	(517.1)	(538.8)
Net assets		<u>822.1</u>	<u>906.7</u>
Capital and reserves			
Called up share capital	17	10.0	10.0
Profit and loss reserve	18	756.5	840.8
Share based payment reserve	18	3.4	3.1
Revaluation reserve	18	52.2	52.8
Total shareholders' funds	18	<u>822.1</u>	<u>906.7</u>

The financial statements on pages 27 to 50 were approved by the board of directors on 14 July 2010 and signed on their behalf by:

Richard Flint
Chief Executive Officer



Yorkshire Water Services Ltd
Registered in England no 236668

Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2010

1. ACCOUNTING POLICIES

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

Basis of preparation and accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain tangible fixed assets, in compliance with all applicable United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the accounts, with the Companies Act 2006

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 present information about the company as an individual company undertaking and do not contain consolidated financial information as the parent of a group. The company is exempt from preparing group financial statements under Section 400 of the Companies Act 2006 as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate UK parent, Kelda Eurobond Co Ltd, a company registered in England and Wales.

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

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

Pensions

The company accounts for its pensions in accordance with FRS 17 "Retirement Benefits". A majority of the company's employees participate in the Kelda Group Pension Plan (KGPP), a group defined benefit pension scheme as described in Note 21 of the financial statements. The KGPP is a group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other companies in the KGPP. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it were defined contribution schemes. The KGPP closed to new members in 2006. The company also provides a defined contribution scheme, Kelda Stakeholder+, which is available to new and existing employees.

Notes to the Financial Statements

Share based payments

Savings related share option scheme

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

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

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

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

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

Research and development expenditure

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

Taxation

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

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

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

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

Notes to the Financial Statements

Investments

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

Intangible assets

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

Tangible fixed assets and depreciation

Tangible fixed assets comprised the following

Infrastructure assets

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

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

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

Other tangible fixed assets

Following a change in accounting policy during 2009, residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible fixed assets are included at cost, which represents the purchase price, less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are expensed as incurred.

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

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

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

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

Notes to the Financial Statements

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 installments 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 the Companies Act 2006, 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 £383.7m (2009 £371.0m).

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

Stocks

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

Receipts in advance

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

Foreign currencies

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

Provisions

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

Provisions also include index linked swaps novated from Saltaire Water Ltd to YW in August 2008. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at

Notes to the Financial Statements

fair value and are held in the balance sheet as a provision. This provision is being amortised over the life of the swaps (38 years) and is not discounted

Financial instruments

Trade debtors and creditors

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

Interest rate swaps

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

Index linked swaps

Index linked swaps are used to hedge YW's exposure to movements in RPI against its LIBOR linked borrowings.

YW applies hedge accounting for its swaps only to the extent that there is sufficient floating rate debt within YW, over the entire life of the swap, from existing or expected future debt. To the extent that there is insufficient floating rate debt to cover the swap in current or future periods, and the mark to mark valuation of the swap is negative, any exposure for the portion of the swap that is not hedged will be provided for in the balance sheet.

The swaps have three cashflows:

- Six monthly receivable elements linked to LIBOR;
- Six monthly payable elements linked to RPI; and
- An RPI-linked final bullet payment that is payable on maturity of the instruments.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet is calculated based on the RPI at the measurement date, accrued in the profit and loss account and recognised within long term borrowings.

These swaps were novated to YW from Saltire Water Ltd in August 2008 at which time the swaps were out of the money by £308.9m. This value was reflected in YW's balance sheet as an intercompany debtor, with a provision for the same amount. The provision is amortised through the YW profit and loss account over a 38 year period (being the remaining weighted average life of the swaps).

The company is not required to prepare its financial statements in accordance with FRS 26 and apart from the provisions noted above its index linked swaps are held off balance sheet (note 15).

Notes to the Financial Statements

2. OPERATING PROFIT

Operating profit (before exceptional costs) is stated after (crediting)/charging

	2010	2009
	£m	£m
Own work capitalised	(26.0)	(27.8)
Raw materials and consumables	17.6	16.6
Other external charges	222.6	221.0
Wages and salaries	66.1	66.6
Social security costs	5.7	5.2
Pension costs (note 21)	16.6	15.0
Depreciation of fixed tangible assets (note 9)		
On owned assets		
- infrastructure	47.7	51.2
- other assets	134.5	126.6
On assets held under finance leases		
- infrastructure	1.9	2.1
- other assets	9.3	9.4
Operating lease charges		
- plant and equipment	2.0	2.4
- other	0.4	0.4
Amortisation of grants and contributions	(3.0)	(3.1)
Amortisation of goodwill on subsidiary undertakings (note 8)	0.9	1.0
Restructuring costs	0.1	0.8
Research and development	0.8	0.8
Other operating income	(3.5)	(4.1)
	<u>493.7</u>	<u>484.1</u>

Exceptional operating costs

During the year costs of £2.2m were incurred following a whole business reorganisation.

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

Services provided by the company's auditors

During the year the company obtained the following services from its auditors at costs as detailed below

	2010	2009
	£'000	£'000
Fees payable for the audit	114	99
Fees payable for other services	-	110
	<u>114</u>	<u>209</u>

Notes to the Financial Statements

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

	Number	Number
Employees working in the regulated business	2,132	2,194

3. DIRECTORS' EMOLUMENTS

(excluding those listed below)

	2010	2009
	£'000	£'000
Aggregate emoluments	1,566	1,229
The amounts in respect of the highest paid director are as follows		
Emoluments	436	287

Kevin Whiteman and Allison Bainbridge were directors of Kelda Holdco Ltd during the year, and their emoluments are shown in the accounts of that company. Stuart Baldwin, Juan Bejar Ochoa, Rhys Evenden and Holly Koeppel are non-executive directors of Kelda Holdings Ltd and their emoluments are shown in the accounts of that company.

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

During 2009/10, all except one executive director were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. One director was a contributory member of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2009/10 was £42,919 (2009: £36,942). No directors have exercised share options during the year (2009: 2).

4. NON OPERATIONAL EXCEPTIONAL COSTS

During the year YW incurred exceptional costs of £42.1m (2009: £nil).

As a result of the whole business securitisation in July 2009, YW made a £42.1m share capital injection into Yorkshire Water Services Odsal Finance Holdings Ltd (Odsal Holdings) to enable the payment of accrued interest on exchanged bonds. YW is required to write down the investment in Odsal Holdings at the year end as the net asset of Odsal Holdings is lower than the amount invested. The cash will be returned to YW over the life of the exchanged bonds.

These costs are included within financing costs as they were incurred as a result of the whole business securitisation.

Notes to the Financial Statements

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £m	2009 £m
Interest receivable and similar income:		
Inter-company loans	(13.1)	(10.3)
Index linked swaps	(19.5)	(60.4)
Amortisation of fair value of index linked swaps (note 16)	(8.1)	(5.3)
Other	(1.0)	(4.2)
	<u>(41.7)</u>	<u>(80.2)</u>
Interest payable and similar charges:		
Bank loans and overdrafts	19.6	34.4
Finance leases	9.8	23.1
Inter-company loans	121.8	77.8
RPI uplift on index linked swaps	(2.5)	19.7
Index linked swaps	12.7	-
Index linked swaps	30.3	-
Whole business securitisation fees	9.7	-
Other	7.3	1.9
	<u>208.7</u>	<u>156.9</u>
Net interest payable	<u>167.0</u>	<u>76.7</u>

Interest payable on inter-company loans has increased as a result of £650m of new bond issuance within Yorkshire Water Services Bradford Limited (a subsidiary of YW) during July 2009, which was in turn lent to YW

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2010 £m	2009 £m
Current tax:		
Corporation tax at 28% (2009: 28%)	52.3	70.4
Adjustments in respect of prior years	(0.4)	(0.2)
Total current tax	<u>51.9</u>	<u>70.2</u>
Deferred tax:		
Charge for timing differences arising and reversing in the year	5.4	3.4
Adjustments in respect of prior years	(2.0)	(0.3)
	<u>3.4</u>	<u>3.1</u>
(Increase)/decrease in discount	(17.0)	41.0
Total deferred tax (note 16)	<u>(13.6)</u>	<u>44.1</u>
Total tax on profit on ordinary activities	<u>38.3</u>	<u>114.3</u>

Note 16 shows further detail on the discounting of the deferred tax provision

Notes to the Financial Statements

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

	2010	2009
	£m	£m
Profit on ordinary activities before tax	<u>164.4</u>	<u>266.4</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 28%)	46.0	74.6
Effects of:		
Income not chargeable for tax purposes	(5.3)	(0.8)
Expenses not deductible for tax purposes	17.0	-
Capital allowances in excess of depreciation and other timing differences	(5.4)	(3.4)
Adjustments in respect of prior years	<u>(0.4)</u>	<u>(0.2)</u>
Current tax charge for the year	<u>51.9</u>	<u>70.2</u>

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

In addition, industrial buildings allowance (currently 4%) will be phased out over a period ending in March 2011. The net impact of this change is not expected to be material.

Notes to the Financial Statements

7. DIVIDENDS

	2010	2009
	£m	£m
Interim dividends approved and paid	211.0	131.5
Special interim dividends	-	180.1
	<u>211.0</u>	<u>311.6</u>

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

8. INTANGIBLE ASSETS

	<i>Goodwill</i>
	<i>£m</i>
Cost	
Balance at 1 April 2009 and 31 March 2010	<u>17.9</u>
Amortisation	
Balance at 1 April 2009	(8.5)
Charge for the year	<u>(0.9)</u>
Balance at 31 March 2010	<u>(9.4)</u>
Net book amount as at 31 March 2010	<u>8.5</u>
Net book amount as at 31 March 2009	<u>9.4</u>

Goodwill arose on the transfer of the trade and net assets of The York WaterWorks Ltd on 1 April 2000 and is being amortised over 19 years. The Directors do not believe this should be impaired as it relates to assets which are still in continuing use within the business.

Notes to the Financial Statements

9. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
At 1 April 2009	1,596.3	2,600.6	2,140.5	411.5	6,748.9
Additions	33.9	37.4	82.9	107.8	262.0
Transfers on commissioning	100.4	33.3	156.2	(289.9)	-
Disposals - external	(1.3)	-	(3.0)	(0.6)	(4.9)
Grants and contributions	-	-	-	(12.7)	(12.7)
At 31 March 2010	1,729.3	2,671.3	2,376.6	216.1	6,993.3
Depreciation					
At 1 April 2009	505.1	963.8	1,055.5	-	2,524.4
Disposals	(1.1)	-	(2.8)	(0.6)	(4.5)
Depreciation for the year	29.0	49.6	114.2	0.6	193.4
At 31 March 2010	533.0	1,013.4	1,166.9	-	2,713.3
Closing net book amount	1,196.3	1,657.9	1,209.7	216.1	4,280.0
Opening net book amount	1,091.2	1,636.8	1,085.0	411.5	4,224.5

At 31 March 2010 assets above held under finance leases amounted to

Cost	126.4	100.0	206.1	-	432.5
Depreciation	31.7	19.4	124.0	-	175.1
Closing Net book amount	94.7	80.6	82.1	-	257.4
Opening net book amount	96.9	82.4	89.9	-	269.2

	Cost at 31 March 2010 £m	Depreciation at 31 March 2010 £m	Net book value at 31 March 2010 £m	Net book value at 31 March 2009 £m
The net book amount of land and buildings comprised:				
Freehold properties	1,727.5	532.5	1,195.0	1,090.1
Properties held on long lease	0.5	-	0.5	0.5
Properties held on short lease	1.3	0.5	0.8	0.6
	1,729.3	533.0	1,196.3	1,091.2

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 2006 requirements and is adopted, as explained in the accounting policy note on page 32, 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 £383.7m (2009 £371.0m) lower than it would have been had this treatment not been adopted.

Certain categories of the company's land and buildings are held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2009. The valuations were

Notes to the Financial Statements

undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK. These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. No changes in values have been booked during the year.

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

Categories of assets revalued are as follows:

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

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

	Valuation	Historical cost basis
	£m	£m
At cost	56.1	5.1
Aggregate depreciation	-	(1.8)
31 March 2009	<u>56.1</u>	<u>3.3</u>
Disposal of revalued assets	(0.3)	-
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.3)	-
31 March 2010	<u>55.5</u>	<u>3.3</u>

10. INVESTMENTS

	Shares in group undertakings	Other unlisted investments	Total
	£m	£m	£m
At 1 April 2009	16.6	0.1	16.7
Impairment of investment in The York WaterWorks Ltd	(16.6)	-	(16.6)
At 31 March 2010	<u>-</u>	<u>0.1</u>	<u>0.1</u>

Shares in group undertakings

The balance at 1 April 2009 relates to the 100% holding in The York WaterWorks Ltd which was written down to the value of the underlying net assets in 2001. During 2009/10 The York Waterworks Ltd distributed all its remaining reserves and a further write down of the investment was provided. YW also has a 99.9% holding in Yorkshire Water Services Finance Ltd (formerly plc), a 100% holding in Yorkshire Water Services Bradford Finance Ltd, both of whose principal activity is the raising of finance, and also a 100% holding in Yorkshire Water Services Odsal Finance Holdings Ltd. This was undertaken as part of the whole business securitisation.

Notes to the Financial Statements

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 400 of the Companies Act 2006. Consolidated accounts have been prepared by Kelda Eurobond Co Ltd, the largest UK group to consolidate these accounts. Copies can be obtained from the Company Secretary, Kelda Eurobond Co Ltd, Western House, Halifax Road, Bradford, BD6 2SZ.

11. STOCK

	2010	2009
	£m	£m
Raw materials and consumables	1.0	0.7
Work in progress	0.1	0.1
	<u>1.1</u>	<u>0.8</u>

12. DEBTORS

	2010	2009
	£m	£m
Receivable within one year		
Trade debtors	80.2	73.0
Amounts owed by group undertakings	90.1	23.5
Amounts owed by associated undertakings	-	0.3
Prepayments and accrued income	60.2	65.1
Other debtors	10.2	10.5
	<u>240.7</u>	<u>172.4</u>
Receivable after more than one year		
Amounts owed by group undertakings	296.7	296.7
	<u>537.4</u>	<u>469.1</u>

Amounts owed by group undertakings within one year and after more than one year includes £296.7m (2009: £308.9m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Ltd to Yorkshire Water in August 2008.

Notes to the Financial Statements

13. OTHER CREDITORS

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade creditors	43.1	38.2
Capital creditors	34.9	61.2
Deferred grants and contributions on depreciating fixed assets	3.0	3.0
Amounts owed to group undertakings	1.8	57.7
Amounts owed to subsidiary undertakings	226.9	55.1
Social security and other taxes	2.0	1.6
Taxation payable	44.7	15.3
Receipts in advance	52.4	51.8
Other creditors	35.0	34.9
	<u>443.8</u>	<u>318.8</u>
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	2,154.5	1,619.8
Amounts owed to group undertakings	80.7	-
Deferred grants and contributions on depreciating fixed assets	73.4	75.6
Other creditors	66.3	62.5
	<u>2,374.9</u>	<u>1,757.9</u>

Amounts owed to group undertakings relate to amounts of debt raised by subsidiaries and lent to YW to finance its operations in addition to creditors for services provided

14. AGGREGATE BORROWINGS AND CASH

	2010			
	<i>Bank loans and overdrafts</i> £m	<i>Other loans</i> £m	<i>Finance leases</i> £m	<i>Total</i> £m
Short term borrowings:				
In one year or less or on demand	27.1	-	12.5	39.6
Long term borrowings:				
In more than one year, but not more than two years	43.0	-	13.2	56.2
In more than two years, but not more than five years	103.6	-	72.8	176.4
In more than five years	156.1	17.2	282.5	455.8
	<u>302.7</u>	<u>17.2</u>	<u>368.5</u>	<u>688.4</u>
Cash at bank				(58.8)
Amounts owed to parent company				80.7
Amounts owed to subsidiary company				<u>2,324.2</u>
Net debt at 31 March 2010				<u>3,074.1</u>

Notes to the Financial Statements

	2009			Total £m
	Bank loans and overdrafts £m	Other loans £m	Finance leases £m	
Short term borrowings				
In one year or less or on demand	25.0	0.6	6.0	31.6
Long term borrowings				
In more than one year, but not more than two years	27.1	-	6.3	33.4
In more than two years, but not more than five years	564.1	-	30.0	594.1
In more than five years	184.7	19.7	353.2	557.6
	<u>775.9</u>	<u>19.7</u>	<u>389.5</u>	<u>1,185.1</u>
Cash at bank				(18.4)
Amounts owed to parent company				21.3
Amounts owed to subsidiary company				<u>1,619.8</u>
Net debt as at 31 March 2009				<u>2,839.4</u>

Borrowings repayable in instalments after more than five years include £282.5m (2009 £353.2m) in respect of finance leases which have expiry dates ranging from 2018 to 2043 and carry interest rates based on 12 month LIBOR (London Interbank Offered Rate) and 6 month LIBOR. The finance lease creditors are secured on the underlying assets.

At 31 March 2010 YW had undrawn committed syndicated bank facilities totalling £510.0m. These facilities expire in November 2012.

15. FINANCIAL DERIVATIVES

Index linked swaps

In February 2008, Saltaire Water Ltd, at that time an intermediate parent company, entered into certain index linked ('IL') swaps, with a nominal value of £1,288.9m. These swaps were novated to YW in August 2008 at which time the swaps were out of the money by £308.9m. This value was reflected in YW's balance sheet as an intercompany debtor, receivable from Saltaire, with a provision for the same amount. The provision is amortised through the YW profit and loss account over a 38 year period (being the remaining weighted average life of the swaps) and for 2009/10 the amortisation charge was £8.1m.

The outstanding IL swaps have maturity dates ranging from 2026 to 2063, some with break dates exercisable by the swap counterparties prior to maturity. Provisions within the securitised structure (page 6) require that break dates are arranged such that swaps with a nominal value equal to no more than 3.5% of RCV can break in any two year period and no more than 7% of RCV in any five year period, thus reducing the risk of swap maturity concentration.

There are three cashflows associated with the swaps

- Six monthly receivable elements linked to LIBOR;
- Six monthly payable elements linked to RPI, and
- An RPI-linked final bullet that is payable on maturity of the instruments

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date is discounted using the 30 year gilt rate at the relevant date, accrued in the profit and loss account and recognised within long term borrowings.

Notes to the Financial Statements

With six month LIBOR and applicable discount rates at historically low levels in the short term, these swaps gave rise to an out of the money mark to market value of £829.8m (2009 £433.0m) at the year end date

Of this £828.8m, £17.2m has been recognised within long term borrowings, this represents the discounted value of the RPI bullet accrued to 31 March 2010

A further £295.5m is included within provisions for liabilities and charges (2009 £308.9m) (note 16) which represents the unamortised novation provision

At the prior year end, the level of floating rate debt within the company and the provision created on novation meant that the valuation of the swaps did not require any additional provision to be recognised

The directors have considered whether an additional provision is required at 31 March 2010 based on the following

- At the year end, the swaps are effectively hedging the floating rate debt held by YW of £217.0m, and the further floating rate debt to be taken out by YW, subject to market conditions, and
- The swaps are held for the long term benefit of the business and provide a hedge against existing and future floating rate debt as YW gears up in the foreseeable future under the new securitised structure

At the year end date, given that the swaps are hedged by existing or future debt and a novation provision of £295.5m exists in the balance sheet, no additional provision is required

Interest rate swaps

In addition, YW also holds a further nominal value of £290.0m (2009 £290.0m) of floating to fixed rate interest swaps. These swaps had an out of the money mark to market value of £25.0m at 31 March 2010, giving a total mark to market for all swaps of £854.8m (2009 £433.0m)

All of the swaps outlined above were valued using information provided by external consultants, using a discounted cash flow model and quoted market information. This information is reviewed by the group treasury department and discussed with relevant Directors to ensure it is appropriate for use

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Index linked swaps £m	Deferred tax £m	Self insurance £m	Total £m
At 1 April 2009	303.6	234.9	0.3	538.8
Credited/(charged) to profit and loss account in the year	-	(13.6)	0.3	(13.3)
Utilised in the year	(8.1)	-	(0.3)	(8.4)
At 31 March 2010	295.5	221.3	0.3	517.1

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

Notes to the Financial Statements

	2010	2009
	£m	£m
At 1 April	234.9	190.8
Deferred tax (credited)/charged to the profit and loss account	(11.6)	44.1
Adjustments in respect of prior years	(2.0)	-
At 31 March 2010	221.3	234.9

Deferred tax is provided as follows

	2010	2009
	£m	£m
Accelerated capital allowances	552.4	548.0
Short term timing differences	(2.3)	(1.3)
Undiscounted provision for deferred tax	550.1	546.7
Discount	(328.8)	(311.8)
Discounted provision for deferred tax	221.3	234.9

The corporation tax rate of 28% (2009, 28%) has been used to calculate the amount of deferred tax. The effect of industrial buildings allowances has been excluded from the deferred tax calculations on account of the abolition of balancing allowances and charges announced in the Chancellor's Budget of March 2007 and introduced into legislation by Finance Act 2007. Other than this, provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances and other material timing differences.

In accordance with FRS 19 in order to reflect the time value of money, the company discounts its deferred tax liability. The period of discounting runs until the underlying timing differences completely reverse. In carrying out this calculation, all future movements in the accelerated capital allowances and depreciation charges are scheduled out on a yearly basis, taking account of future depreciation rates. No account is taken of timing differences that might arise on fixed assets expected to be purchased in the future. The discount rate used is the post-tax yield on Government gilts with equivalent maturity dates and currency to those of the deferred tax balance, at the balance sheet date.

17. CALLED UP SHARE CAPITAL

	Authorised	Allotted and fully paid
	£	£
775,000,000 ordinary shares of £1 each at 1 April 2008	775,000,000	775,000,000
Capital reduction	(765,000,000)	(765,000,000)
10,000,000 ordinary shares of £1 each at 31 March 2009 and 31 March 2010	10,000,000	10,000,000

Notes to the Financial Statements

18. MOVEMENT IN TOTAL SHAREHOLDERS' FUNDS

	Profit and loss reserve	Share- based payment reserve	Share capital	Revaluation reserve	Total funds
	£m	£m	£m	£m	£m
At 31 March 2009	840.8	3.1	10.0	52.8	906.7
Profit for the year	126.1	-	-	-	126.1
Dividends	(211.0)	-	-	-	(211.0)
Revaluation reserve released during the year	0.6	-	-	(0.6)	-
Share-based payments amount due to parent	-	0.3	-	-	0.3
At 31 March 2010	756.5	3.4	10.0	52.2	822.1

19. CAPITAL AND OTHER FINANCIAL COMMITMENTS

	2010 £m	2009 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were	105.5	222.4

The long term investment programme for the company, which identified substantial future capital expenditure commitments in the period 2010 to 2015, was agreed as part of the Periodic Review process which was finalised in December 2009.

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

	Land and buildings 2010 £m	Other 2010 £m	Land and buildings 2009 £m	Other 2009 £m
Leases which expire:				
Within one year	0.0	0.1	0.4	1.6
Between one and five years	0.4	2.4	0.0	0.3
After five years	0.4	0.0	0.0	0.0
	0.8	2.5	0.4	1.9

Notes to the Financial Statements

20. CONTINGENT LIABILITIES

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Ltd, Yorkshire Water Services Bradford Finance Ltd and Yorkshire Water Services Odsal Finance Ltd at 31 March 2010

	Nominal £m	Coupon %	Maturity	Liability at 31 March 2010 £m
Fixed rate				
Yorkshire Water Services Finance Ltd	79.3	6.875%	2010	79.3
Yorkshire Water Services Finance Ltd	6.8	5.375%	2023	6.8
Yorkshire Water Services Finance Ltd	7.4	5.500%	2027	7.4
Yorkshire Water Services Finance Ltd	0.2	6.625%	2031	0.2
Yorkshire Water Services Finance Ltd	200.0	5.500%	2037	200.0
Yorkshire Water Services Odsal Finance Ltd	94.5	3.054%	2010	94.5
Yorkshire Water Services Odsal Finance Ltd	29.9	6.588%	2023	29.9
Yorkshire Water Services Odsal Finance Ltd	210.7	6.588%	2023	180.8
Yorkshire Water Services Odsal Finance Ltd	135.5	6.454%	2027	135.5
Yorkshire Water Services Odsal Finance Ltd	255.0	6.601%	2031	255.0
Yorkshire Water Services Bradford Finance Ltd	275.0	6.000%	2019	275.0
Yorkshire Water Services Bradford Finance Ltd	200.0	6.375%	2039	200.0
Total fixed:				1,464.4
Index linked				
Yorkshire Water Services Finance Ltd	0.1	3.048%	2033	0.1
Yorkshire Water Services Odsal Finance Ltd	99.9	3.048%	2033	126.3
Yorkshire Water Services Finance Ltd	65.0	1.823%	2050	69.2
Yorkshire Water Services Finance Ltd	125.0	1.462%	2051	136.4
Yorkshire Water Services Finance Ltd	85.0	1.758%	2054	90.6
Yorkshire Water Services Finance Ltd	125.0	1.460%	2056	136.4
Yorkshire Water Services Finance Ltd	100.0	1.709%	2058	106.4
Yorkshire Water Services Bradford Finance Ltd	175.0	2.718%	2039	180.1
Total index linked				845.5

21. PENSION COMMITMENTS

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

Contributions during the year ended 31 March 2010 were paid by members at 3%, 4%, 4.5% or 6% of pensionable pay (depending on benefit category). The company contributed at 22.2% (2009 22.2%) of members' pensionable pay during the accounting year in respect of the majority of members.

The most recent finalised actuarial valuation of the KGPP was carried out as at 31 March 2007 when the market value of assets was £818.6m. The company participates in the group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other subsidiary companies of Kelda Holdings Ltd. The company is unable to identify its share of the underlying assets and liabilities of the KGPP as, with the exception of Kelda Water

Notes to the Financial Statements

Services (Wales) Ltd, the scheme's members are not unitised by company. The company therefore accounts for pension costs on a contribution basis

The company's total pension charge for the year was £16.6m (2009 £15.0m) At 31 March 2010, the company had outstanding contributions of £3.1m (2009 £1.9m) An accrual for unfunded benefits of £3.3m at 31 March 2010 (2009 £2.0m) has been included in the company's accounts

A summary of scheme position as disclosed in the Kelda Holdco Ltd accounts as at 31 March 2010 is as follows

	2010	Expected	2009	Expected
	Market	long term	Market	long term
	value	rate of	value	rate of
		return		return
	£m	%	£m	%
Fair value of scheme assets				
Equities	523.1	7.3	368.0	7.2
Bonds	246.3	5.1	207.3	5.5
Property	68.1	7.3	42.3	7.2
Other	4.5	4.6	16.9	4.4
Total value of assets	842.0		634.5	
Present value of scheme liabilities	(909.5)		(668.5)	
Net pension liability	(67.5)		(34.0)	

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

	2010	2009
Inflation	3.5%	3.3%
Rate of increase in salaries	4.5%	4.5%
Rate of increase to pensions in payment and deferred pensions	3.5%	3.3%
Discount rate for scheme liabilities	5.6%	7.0%
Life expectancy of male pensioner aged 60 (in years)	24.9	24.9
Projected life expectancy at age 60 for male aged 40 (in years)	26.0	26.0

22. ULTIMATE PARENT UNDERTAKING

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

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

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

Notes to the Financial Statements

23. RELATED PARTY TRANSACTIONS

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

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

Related party	Sales to related party		Amounts owed from related party	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Kelda Water Services (Defence) Limited	312	387	-	90
Dalriada Water Services Ltd	3	395	-	184
Aberdeen Environmental Services Ltd	6	7	2	2
	321	789	2	276

As at 31 March 2009 Kelda Water Services Ltd, a wholly owned subsidiary of Kelda Group, had a 50% interest in Kelda Water Services (Defence) Ltd (formerly Brey Services Ltd); a 50% interest in Dalriada Water Services Ltd (DWS); and a 45% interest in Aberdeen Environmental Services Ltd (AES). During 2009/10 the interest in DWS and Brey have both increased to 100% as at 31 March 2010 and the interest in AES has increased to 50% as at 31 March 2010. On 26 April 2010 the remaining 50% of AES was purchased by Kelda Non Reg Holdco Ltd and is now part of the Kelda Holdings Ltd group

24. SEGMENTAL INFORMATION

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

25. SHARE-BASED PAYMENTS

Share options

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

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

Notes to the Financial Statements

	2010		2009	
	<i>Options</i>	<i>Weighted average exercise price</i>	<i>Options</i>	<i>Weighted average exercise price</i>
		£		£
Outstanding at the beginning of the year	500,372	6.86	1,432,753	5.76
Lapsed during the year	(972)	7.04	(210,238)	6.16
Exercised during the year	(240,208)	5.58	(722,143)	4.82
Outstanding at the end of the year	259,192	6.20	500,372	6.86
Of which exercisable at the end of the year	78,215	5.38	90,469	4.9

The weighted average share price at the date of exercise for share options exercised during the year was £10.90 (2009 £10.90)

The options outstanding at 31 March 2010 had a weighted average exercise price of £6.20 and a weighted average remaining contractual life of 1.0 years.

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

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

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

Directors' Responsibilities

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Auditors' Report

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

We have audited the financial statements of Yorkshire Water Services Ltd for the year ended 31 March 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2010

Regulatory Accounting Information 2010

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Explanatory note

Pages 55 to 85 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Water Services Regulation Authority (Ofwat).

Historical Cost Profit and Loss Account

for the year ended 31 March 2010

	2010			2009		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	859.2	10.2	869.4	828.2	10.2	838.4
Operating costs	(408.0)	(8.3)	(416.3)	(357.5)	(8.1)	(365.6)
Historical cost depreciation	(141.8)	-	(141.8)	(133.8)	-	(133.8)
Operating income	1.3	-	1.3	1.9	-	1.9
Operating profit	310.7	1.9	312.6	338.8	2.1	340.9
Other income	18.8	-	18.8	2.2	-	2.2
Net interest	(167.0)	-	(167.0)	(76.7)	-	(76.7)
Profit on ordinary activities before taxation	162.5	1.9	164.4	264.3	2.1	266.4
Taxation - current tax	(51.4)	(0.5)	(51.9)	(69.6)	(0.6)	(70.2)
- deferred tax	13.6	-	13.6	(44.1)	-	(44.1)
Profit on ordinary activities after taxation	124.7	1.4	126.1	150.6	1.5	152.1
Dividends - interim	(211.0)	-	(211.0)	(131.5)	-	(131.5)
- special dividend	-	-	-	(180.1)	-	(180.1)
- prior year final	-	-	-	-	-	-
Sustained loss for the year	(86.3)	1.4	(84.9)	(161.0)	1.5	(159.5)

The accounting policies set out on page 29 of the statutory financial statements of Yorkshire Water Services Ltd (Yorkshire Water) apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets and the investment in The York Waterworks Ltd (note 1 on page 60)

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

Historical Cost Balance Sheet

as at 31 March 2010

	2010 Appointed £m	Non- appointed £m	Total £m	2009 Appointed £m	Non- appointed £m	Total £m
Fixed assets						
Tangible assets	4,298.4	4.3	4,302.7	4,237.2	4.3	4,241.5
Investment - loan to a group company	207.9	-	207.9	296.7	-	296.7
Investment - other	8.6	-	8.6	9.5	-	9.5
	4,514.9	4.3	4,519.2	4,543.4	4.3	4,547.7
Current assets						
Stocks	1.1	-	1.1	0.8	-	0.8
Debtors	238.0	2.8	240.8	158.6	1.6	160.2
Cash	58.8	-	58.8	18.4	-	18.4
Short term deposits	8.1	-	8.1	12.2	-	12.2
	306.0	2.8	308.8	190.0	1.6	191.6
Creditors: amounts falling due within one year						
Infrastructure renewals accrual	(22.7)	-	(22.7)	(17.0)	-	(17.0)
Creditors	(226.0)	(0.4)	(226.4)	(237.5)	(0.2)	(237.7)
Borrowings	(212.0)	2.7	(209.3)	(55.5)	2.6	(52.9)
Corporation tax payable	(44.2)	(0.6)	(44.8)	(39.6)	(0.6)	(40.2)
	(504.9)	1.7	(503.2)	(349.6)	1.8	(347.8)
Net current liabilities	(198.9)	4.5	(194.4)	(159.6)	3.4	(156.2)
Total assets less current liabilities	4,316.0	8.8	4,324.8	4,383.8	7.7	4,391.5
Creditors: amounts falling due after more than 1 year						
Borrowings	(2,842.9)	-	(2,842.9)	(2,804.9)	-	(2,804.9)
Other creditors	(66.3)	-	(66.3)	(62.5)	-	(62.5)
	(2,909.2)	-	(2,909.2)	(2,867.4)	-	(2,867.4)
Provisions for liabilities and charges						
Deferred tax provision	(221.3)	-	(221.3)	(234.9)	-	(234.9)
Deferred income - grants and contributions	(72.6)	(3.8)	(76.4)	(74.5)	(4.1)	(78.6)
Other provisions	(295.8)	-	(295.8)	(303.9)	-	(303.9)
	817.1	5.0	822.1	903.1	3.6	906.7
Capital and reserves						
Called up share capital	10.0	-	10.0	10.0	-	10.0
Profit and loss reserve	751.5	5.0	756.5	837.2	3.6	840.8
Other reserves - share based payments	3.4	-	3.4	3.1	-	3.1
Other reserves - revaluation surplus	52.2	-	52.2	52.8	-	52.8
	817.1	5.0	822.1	903.1	3.6	906.7

The regulatory financial statements on pages 55 to 76 were approved by the board of directors on 14 July 2010 and signed on their behalf by

Richard Flint,
Chief Executive Officer



Current Cost Profit and Loss Account for the Appointed Business

for the year ended 31 March 2010

	<i>Note</i>	2010 £m	2009 £m
Turnover	5	859.2	828.2
Current cost operating costs	6	(610.2)	(547.9)
Operating (expense)/income	5	(0.2)	2.0
Working capital adjustment	5	1.2	(0.1)
Current cost operating profit		250.0	282.2
Other income		18.8	2.2
Net interest		(167.0)	(76.7)
Financing adjustment		131.7	(10.9)
Current cost profit on ordinary activities before taxation		233.5	196.8
Taxation - current tax		(51.4)	(69.6)
- deferred tax		13.6	(44.1)
Current cost profit on ordinary activities after taxation		195.7	83.1
Dividends		(211.0)	(311.6)
Current cost loss sustained		(15.3)	(228.5)

Current Cost Balance Sheet for the Appointed Business

for the year ended 31 March 2009

	Note	2010 £m	2009 £m
Fixed assets			
Tangible assets	8	34,437.9	23,722.6
Third party contributions since 1989/90		(427.2)	(404.5)
Other operating assets and liabilities			
Working capital	9	96.8	(29.1)
Cash		58.8	18.4
Short term deposits		8.1	12.2
Overdrafts		-	-
Infrastructure renewals accrual		(22.7)	(17.0)
Net operating assets		34,151.7	23,302.6
Non operating assets and liabilities			
Borrowings		(212.1)	(55.5)
Non-trade debtors		11.7	20.8
Non-trade creditors due within one year		(95.4)	(69.8)
Investment - loan to Group company		207.9	296.7
Investment - other		8.5	9.5
Corporation tax payable		(44.2)	(39.6)
Total non operating assets and liabilities		(123.6)	162.1
Creditors: amounts falling due after more than one year			
Borrowings		(2,842.9)	(2,804.9)
Other creditors		(66.3)	(62.5)
Total creditors falling due after more than one year		(2,909.2)	(2,867.4)
Provisions for liabilities and charges			
Deferred tax provision		(221.3)	(234.9)
Other provisions		(295.8)	(303.9)
		(517.1)	(538.8)
Net assets		30,601.8	20,058.5
Capital and reserves			
Called up share capital		10.0	10.0
Profit and loss reserve		245.0	260.5
Other reserves		3.4	3.1
Current cost reserve	10	30,343.4	19,784.9
		30,601.8	20,058.5

Current Cost Cash Flow Statement

for the year ended 31 March 2010

	Note	2010			2009		
		Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Net cash flow from operating activities	11	484.7	0.8	485.5	502.4	3.0	505.4
Returns on investments and servicing of finance							
Interest received		61.4	-	61.4	63.1	-	63.1
Interest paid		(166.1)	-	(166.1)	(107.6)	-	(107.6)
Interest in finance lease rentals		(17.0)	-	(17.0)	(28.6)	-	(28.6)
Net cash flow from returns on investments and servicing of finance		(121.7)	-	(121.7)	(73.1)	-	(73.1)
Taxation							
Tax paid		(46.7)	(0.6)	(47.3)	(52.9)	(0.8)	(53.7)
Capital expenditure and financing of investment							
Investment in subsidiary		(42.2)	-	(42.2)	-	-	-
Gross cost of purchase of fixed assets		(244.3)	(0.2)	(244.5)	(285.8)	-	(285.8)
Receipt of grants and contributions		10.4	-	10.4	15.1	-	15.1
Infrastructure renewals expenditure		(43.9)	-	(43.9)	(48.1)	-	(48.1)
Disposal of fixed assets		1.2	-	1.2	2.4	-	2.4
Net cash outflow from investing activities		(318.8)	(0.2)	(319.0)	(316.4)	-	(316.4)
Equity dividends paid		(211.0)	-	(211.0)	(311.6)	-	(311.6)
Net cash outflow before financing		(213.5)	-	(213.5)	(251.6)	2.2	(249.4)
Financing							
New leasing finance		-	-	-	-	-	-
Capital element in finance lease rentals		(14.5)	-	(14.5)	(5.8)	-	(5.8)
New bank loans		802.4	-	802.4	467.4	-	467.4
Repayment of bank loans		(533.9)	-	(533.9)	(189.6)	-	(189.6)
Net cash inflow from financing		254.0	-	254.0	272.0	-	272.0
Increase in cash		40.5	-	40.5	20.4	2.2	22.6

Notes to the Regulatory Accounting Information

1. ACCOUNTING POLICIES - CURRENT COST INFORMATION

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

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

Infrastructure assets

As noted on page 55, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals is shown separately in the current cost balance sheet.

Tangible fixed assets

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

The modern equivalent asset values (MEA) arising from the last Periodic Review (PR09) are incorporated in the 2009/10 Regulatory Accounting Information.

The revaluation of historical cost fixed assets does not affect the current cost accounting information.

- Land and buildings

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

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

- Infrastructure assets

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

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

Notes to the Regulatory Accounting Information

- **Other fixed assets**

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

- **Surplus land**

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

Grants and other third party contributions

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

Real financial capital maintenance adjustments

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

- **Working capital adjustment**

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

- **Financing adjustment**

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

Investment in York WaterWorks

The intangible assets accounting policy on page 31 and note 8 of the statutory financial statements of Yorkshire Water outline the treatment of the transfer of the trade and net assets of The York WaterWorks Ltd (YWW) to Yorkshire Water in 2000. Previously 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. During the year Yorkshire Water impaired its investment in YWW and transferred its investment to Kelda Group Ltd, company within the group of the ultimate parent. This adjustment to remove the investment is no longer therefore required.

Revenue recognition

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

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

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

Notes to the Regulatory Accounting Information

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 is not a monopoly supplier or the activity involves the optional use of an asset owned by the Appointed Business.

3. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Allocation of costs

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

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

Borrowings or sums lent

Kelda Holdco Ltd

During 2008/09 index linked swaps originally held by Saltaire Water Ltd were novated to Yorkshire Water. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value. At the date of the novation the fair value of the swaps was £308.9m out of the money and this resulted in an inter-company loan of this amount and a corresponding provision in the balance sheet of Yorkshire Water. The loan, which was arranged following Ofwat approval, was subsequently transferred from Saltaire Water Ltd and is now loaned to Kelda Holdco Ltd. The loan is being repaid over a 38 year period (the life of the swaps) and therefore has a balance of £295.5m at 31 March 2010 and is subject to the payment of interest at current market rates. The provision is also being amortised over this period.

A short-term loan of £80.7m was received from Kelda Holdco Ltd, which is repayable on demand and subject to the payment of interest at current market rates.

Yorkshire Water Services Finance Limited

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

On 24 July 2009, Yorkshire Water implemented a whole business securitisation (WBS). Post the implementation of the WBS, Yorkshire Water Services Finance Limited will remain the issuer in respect of the existing bonds on-lent to Yorkshire Water, but will not issue further bonds in the future.

Notes to the Regulatory Accounting Information

The table below sets out the amounts outstanding on the existing bonds prior to the implementation of the WBS

Issue Date	Nominal £m	Coupon	Maturity	Liability @ 31/03/2010 £m
Fixed Rate				
23/04/1998	200 0	6 875%	2010	171 0
07/04/2000	240 0	6 625%	2031	240 4
21/02/2003	200 0	5 375%	2023	196 8
29/05/2007	200 0	5 125%	2037	194.7
29/05/2007	150 0	5 500%	2027	148 7
Index Linked				
21/02/2003	100 0	3 048%	2033	121 9
27/11/2006	125 0	1 462%	2051	124 9
27/11/2006	125 0	1 460%	2056	124 8
01/06/2007	85 0	1 75756%	2054	84 5
11/06/2007	100 0	1 7085%	2058	99 4
11/06/2007	65 0	1 8225%	2050	64 6
Indexation on index linked				37 3
Total loan with YWSFL				1,609.0

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

Dividends paid to associated undertakings

Amounts paid to the parent company and the underlying dividend policy, are disclosed in the Directors' Report on page 19 of the statutory financial statements of Yorkshire Water

Guarantees/securities

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

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

Transfer of assets and liabilities

During the course of the year land and buildings were sold to group companies at market value. Total sale proceeds were £0.8m (2009: £1.5m)

Notes to the Regulatory Accounting Information

Supply of service

Details of services supplied to the Appointee by associates during the year are disclosed below where these exceed a materiality level of £1m (in line with RAG 5 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 Ltd	4.3	Cost allocation	3.2
Customer Services	Loop Customer Management	20.4	Cost allocation	18.6

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

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

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

Salary

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

Annual incentive plan

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

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

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

Notes to the Regulatory Accounting Information

In 2009/10 the scheme was reviewed and the percentage of the corporate bonus attributed to financial measures was increased compared to the previous year

Vision chapter	Measure	% of corporate bonus
Value+	Financial performance	17.5 (20% max)
Service+	Customer satisfaction	5 (7.5% max)
Compliance+	Water quality (mean zonal compliance) and WWTW compliance with numeric sanitary consent	6 (7.5% max)
People+	Employee motivation	4 (5% max)
Partners	Contractor performance and health and safety performance	3.5 (5% max)
Society	Media tracking and volunteering	4 (5% max)

Using these principles the awards for 2009/10 were determined by the group remuneration committee (the Committee) and taking account of performance against these measures and personal/individual objectives, total awards were made by the Committee in accordance with the table below

	Max. Bonus	Bonus for 2009/10	Bonus for 2009/10
	%	%	£
Graham Dixon	70	62	93,000
Richard Flint	100	75	150,000
Alan Harrison	70	60	90,000
Jonathan Hodgkin	70	45	67,500
Mark Penny	70	50	50,000

These payments were approved by the Committee on 25 March 2010 and were paid in June 2010

Kevin Whiteman and Allison Bainbridge were executive directors of Kelda Holdco Ltd during 2009/10 and their emoluments are shown in the accounts of that company

Long term incentive plan (LTIP)

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

Following the acquisition, the Committee conducted a review of the group's executive incentive arrangements for executive directors. A revised cash LTIP was developed and established during the year under which the first conditional awards were granted in November 2008

Notes to the Regulatory Accounting Information

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

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

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

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

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

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

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

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

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

As a result the Committee met in May 2009 and varied the performance condition for the 2008 awards to replace the Capital Maintenance measures with a performance condition that measures performance against the phased capital efficiency target for the relevant award year and calculates a cumulative efficiency performance over a three year period (the "Capital Efficiency Measure").

Notes to the Regulatory Accounting Information

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

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

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

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

At its meeting in May 2009 the Committee granted a second set of conditional awards based on the above amended performance conditions

As no LTIP was in place that resulted in vesting in either 2008/09 or 2009/10 no payments were received by the directors during the year under an LTIP. To reflect this gap in LTIP vesting those directors who were in post at the time of the acquisition of Kelda Group plc and at 31 March 2010 received a retention payment calculated on the basis of a 50% uplift to the bonus awarded for 2009/10. The directors in question were Graham Dixon (£46,500), Richard Flint (£76,500) and Alan Harrison (£46,500). The emoluments for Kevin Whiteman and Allison Bainbridge are disclosed in the Kelda Holdco Ltd accounts

Notes to the Regulatory Accounting Information

5. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 2010

	2010			2009		
	Water services	Sewerage services	Total appointed business	Water services	Sewerage services	Total appointed business
	£m	£m	£m	£m	£m	£m
Turnover						
Unmeasured	202.0	239.0	441.0	201.0	231.3	432.3
Measured	176.0	175.5	351.5	163.9	159.4	323.3
Trade effluent	-	7.7	7.7	24.8	8.2	33.0
Large user and special agreement	24.8	26.2	51.0	-	28.0	28.0
Rechargeable works	5.9	0.1	6.0	8.8	0.1	8.9
Bulk supplies/inter company	0.1	-	0.1	0.1	-	0.1
Other sources	0.5	1.4	1.9	0.8	1.8	2.6
Total turnover	409.3	449.9	859.2	399.4	428.8	828.2
Operating income						
Current cost profit on fixed assets net of expenses	0.6	(0.8)	(0.2)	1.0	1.0	2.0
Total operating income	0.6	(0.8)	(0.2)	1.0	1.0	2.0
Working capital adjustment	0.6	0.6	1.2	-	(0.1)	(0.1)

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

contd

for the year ended 31 March 2010

	Resources & treatment	Distribution	Water supply sub total	Sewerage	Sewage treatment	Sludge Treatment & disposal	Sewerage services sub total
	£m	£m	£m	£m	£m	£m	£m
DIRECT COSTS							
Employment costs	4.2	7.1	11.3	3.6	5.9	5.2	14.7
Power	15.1	6.3	21.4	3.0	18.1	3.7	24.8
Hired and contracted services	5.2	13.9	19.1	8.6	10.2	10.7	29.5
Associated companies	0.1	0.1	0.2	-	0.1	-	0.1
Materials and consumables	8.4	0.2	8.6	0.1	1.0	3.7	4.8
Service charges	5.8	-	5.8	1.0	3.6	0.2	4.8
Bulk supply imports	3.5	-	3.5	-	-	-	-
Other direct costs	1.2	2.1	3.3	0.7	0.7	0.2	1.6
Total direct costs	43.5	29.7	73.2	17.0	39.6	23.7	80.3
General and support expenditure	12.4	12.1	24.5	5.8	13.1	7.5	26.4
Functional expenditure	55.9	41.8	97.7	22.8	52.7	31.2	106.7
BUSINESS ACTIVITIES							
Customer services			11.1				11.7
Scientific services			6.1				1.9
Other business activities			2.1				2.1
Business activities sub-total			19.3				15.7
Local authority rates			23.6				13.7
Doubtful debts			6.7				7.1
Exceptional items			37.5				23.4
Total opex less third party services			184.8				166.6
Third party services - opex			7.0				-
Total operating expenditure			191.8				166.6
CAPITAL MAINTENANCE							
Infrastructure renewals charge	7.9	23.0	30.9	18.7	-	-	18.7
Current cost depreciation							
- service activities	34.8	28.7	63.5	19.1	91.0	29.2	139.3
- business activities			0.6				0.6
Amortisation of grants			(1.3)				(1.4)
Amortisation of intangible assets			0.9				-
Total capital maintenance			94.6				157.2
TOTAL OPERATING COSTS			286.4				323.8
							610.2
CCA NET MEA VALUES							
Service activities	4,850.3	12,599.1	17,449.4	15,377.2	1,365.3	230.1	16,972.6
Business activities			11.8				4.0
TOTAL			17,461.2				16,976.6

Notes to the Regulatory Accounting Information

7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2009

	Water		Sewerage		Sludge	Sewerage
	Resources	Distribution	supply	treatment	Treatment	services
	& treatment		sub total		& disposal	sub total
	£m	£m	£m	£m	£m	£m
DIRECT COSTS						
Employment costs	4.2	6.5	10.7	3.5	6.7	13.3
Power	18.2	6.1	24.3	3.3	21.1	30.2
Hired and contracted services	4.8	12.5	17.3	7.8	10.4	26.5
Associated companies	0.1	0.1	0.2	-	0.1	0.1
Materials and consumables	8.1	0.2	8.3	0.1	0.9	4.2
Service charges	5.8	-	5.8	1.2	3.2	4.6
Bulk supply imports	3.2	-	3.2	-	-	-
Other direct costs	1.2	2.1	3.3	0.6	0.8	1.6
Total direct costs	45.6	27.5	73.1	16.5	43.2	80.5
General and support expenditure	11.9	11.7	23.6	6.1	14.4	25.5
Functional expenditure	57.5	39.2	96.7	22.6	57.6	106.0
BUSINESS ACTIVITIES						
Customer services			10.8			11.4
Scientific services			5.6			2.3
Other business activities			2.2			2.1
Business activities sub-total			18.6			15.8
Local authority rates			22.5			12.2
Doubtful debts			5.9			6.2
Exceptional items			5.3			5.9
Total opex less third party services			149.0			146.1
Third party services - opex			8.8			0.2
Total operating expenditure			157.8			146.3
CAPITAL MAINTENANCE						
Infrastructure renewals charge	10.0	26.3	36.3	17.0	-	17.0
Current cost depreciation						
- service activities	57.1	20.5	77.6	14.4	82.1	114.3
- business activities			0.2			0.2
Amortisation of grants			(1.4)			(1.4)
Amortisation of intangible assets			1.0			-
Total capital maintenance			113.7			130.1
TOTAL OPERATING COSTS			271.5			276.4
						547.9
CCA NET MEA VALUES						
Service activities	4,266.2	5,114.7	9,380.9	12,453.6	1,684.5	14,332.5
Business activities			4.6			4.6
TOTAL			9,385.5			14,337.1

Notes to the Regulatory Accounting Information

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 2010

	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 2009	2,236.8	22.9	8,129.2	329.1	10,718.0
AMP adjustment	78.6	69.6	7,413.1	(168.2)	7,393.1
RPI adjustment	102.9	4.1	683.9	6.0	796.9
Disposals	(3.9)	(0.4)	-	(7.9)	(12.2)
Additions	47.1	0.2	13.0	17.6	77.9
At 31 March 2010	2,461.5	96.4	16,239.2	176.6	18,973.7
Depreciation					
At 1 April 2009	1,106.1	7.2	-	219.2	1,332.5
AMP adjustment	214.2	(3.3)	-	(144.4)	66.5
RPI adjustment	58.4	0.2	-	3.0	61.6
Disposals	(3.5)	-	-	(8.0)	(11.5)
Charge for year	49.2	0.5	-	13.7	63.4
At 31 March 2010	1,424.4	4.6	-	83.5	1,512.5
Net book amount at 31 March 2010	1,037.1	91.8	16,239.2	93.1	17,461.2
Net book amount at 1 April 2009	1,130.7	15.7	8,129.2	109.9	9,385.5
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 2009	3,972.3	57.4	12,226.7	315.2	16,571.6
AMP adjustment	218.1	36.5	2,180.7	(189.3)	2,246.0
RPI adjustment	186.9	4.1	633.9	3.1	828.0
Disposals	(4.4)	(0.4)	-	(8.4)	(13.2)
Additions	99.7	3.1	13.3	18.1	134.2
At 31 March 2010	4,472.6	100.7	15,054.6	138.7	19,766.6
Depreciation					
At 1 April 2009	2,011.0	23.5	-	200.0	2,234.5
AMP adjustment	495.9	-	-	(181.4)	314.5
RPI adjustment	111.3	-	-	0.8	112.1
Disposals	(3.3)	-	-	(8.4)	(11.7)
Charge for year	125.1	-	-	15.5	140.6
At 31 March 2010	2,740.0	23.5	-	26.5	2,790.0
Net book amount at 31 March 2010	1,732.6	77.2	15,054.6	112.2	16,976.6
Net book amount at 1 April 2009	1,961.3	33.9	12,226.7	115.5	14,337.1

Notes to the Regulatory Accounting Information

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2010

	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 2009	6,209.1	80.3	20,355.9	644.3	27,289.6
AMP adjustment	296.7	106.1	9,593.8	(357.5)	9,639.1
RPI adjustment	289.8	8.2	1,317.8	9.1	1,624.9
Disposals	(8.3)	(0.8)	-	(16.3)	(25.4)
Additions	146.8	3.3	26.3	35.7	212.1
At 31 March 2010	6,934.1	197.1	31,293.8	315.3	38,740.3
Depreciation					
At 1 April 2009	3,117.1	30.7	-	419.2	3,567.0
AMP adjustment	710.1	(3.3)	-	(325.8)	381.0
RPI adjustment	169.7	0.2	-	3.7	173.6
Disposals	(6.8)	-	-	(16.4)	(23.2)
Charge for year	174.3	0.5	-	29.2	204.0
At 31 March 2010	4,164.4	28.1	-	109.9	4,302.4
Net book amount at 31 March 2010	2,769.7	169.0	31,293.8	205.4	34,437.9
Net book amount at 1 April 2009	3,092.0	49.6	20,355.9	225.1	23,722.6

Notes to the Regulatory Accounting Information

9. WORKING CAPITAL

	2010	2009
	£m	£m
Stocks	1.1	0.8
Trade debtors - measured household	25.8	22.5
- unmeasured household	31.1	27.5
- measured non-household	16.3	16.3
- unmeasured non-household	0.4	0.4
- other	5.4	5.5
Measured income accrual	46.3	48.8
Prepayments and other debtors	100.9	16.8
Trade creditors	(45.8)	(40.8)
Deferred income - customer advance receipts	(52.3)	(51.8)
Capital creditors	(29.1)	(61.2)
Accruals and other creditors	(3.3)	(13.9)
	<u>96.8</u>	<u>(29.1)</u>

10. MOVEMENT ON CURRENT COST RESERVE

	2010	2009
	£m	£m
Balance at 1 April	19,784.9	19,867.2
AMP adjustment	9,258.0	-
RPI adjustments		
Fixed assets	1,451.2	(94.8)
Working capital	(1.2)	0.1
Financing	(131.7)	10.9
Grants & third party contributions	(17.8)	1.5
Balance at 31 March	<u>30,343.4</u>	<u>19,784.9</u>

Notes to the Regulatory Accounting Information

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

	2010 £m	2009 £m
Current cost operating profit	250.0	282.2
Working capital adjustment	(1.2)	0.1
Movement in working capital	(93.7)	(17.1)
Receipts from other income	18.8	2.2
Current cost depreciation	204.0	190.5
Current cost profit on sale of fixed assets	0.2	(2.0)
Infrastructure renewals charge	49.6	53.3
Other non-cash profit and loss items	57.0	(6.8)
Net cash flow from operating activities	484.7	502.4

12. NET DEBT ANALYSIS

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Maturity profile				
Less than one year	27.1	12.5	-	39.6
Between two and five years	34.6	-	-	34.6
Between five and twenty years	268.1	209.8	14.0	491.9
In more than twenty years	-	158.7	3.2	161.9
	302.7	368.5	17.2	728.0
Cash				(58.8)
Adjusted net debt at 31 March 2010				669.2
Amounts owed to parent company				80.7
Amounts owed to subsidiary company				2,324.2
Total net debt at 31 March 2010				3,074.1

Notes to the Regulatory Accounting Information

13. RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS

for the year end 31 March 2010

Regulatory accounts item	Statutory UKGAAP £m	Regulatory £m	
Profit and Loss Account			
Operating profit	373.5	312.6	Rental income of £2.2m classified as income in regulatory accounts and impairment costs of £58.7m included to total operating costs in regulatory accounts
Profit before tax	164.4	164.4	Profit before tax unaffected by items shown above
Balance sheet			
Tangible assets	4,280.0	4,302.7	FRS15 adopted in statutory accounts does not permit infrastructure renewals accounting, as required in regulatory accounts A £22.7m accrual is netted off assets
Infrastructure renewals accrual	-	(22.7)	
Deferred income - grants and contributions	-	(76.4)	Within the statutory accounts deferred income is included within creditors due within one year (£3.0m) and creditors due after more than one year (£73.3m)
Investment - loan to a group company	-	207.9	An internal loan to a group company is included within debtors in statutory accounts
Short term deposits	-	8.1	As above
Borrowings (due within one year)	(39.6)	(209.3)	Internal loans classified within borrowings in the regulatory accounts, but as creditors in statutory accounts This includes £169.8m
Borrowings (due after more than one year)	(688.4)	(2,842.9)	Internal loans classified within borrowings in the regulatory accounts, but as creditors in statutory accounts This includes £2,154.5m
Corporation tax payable	-	(44.8)	Included within creditors in statutory accounts, but itemised separately in regulatory accounts
Debtors	456.7	240.8	Internal loans to group company included within investment and short term deposits in regulatory accounts
Creditors (due within one year)	(443.8)	(226.4)	As above, internal loans treatment differs between the statutory and regulatory accounts
Creditors (due after more than one year)	(2,294.2)	(66.3)	As above, internal loans treatment differs between the statutory and regulatory accounts

Notes to the Regulatory Accounting Information

14. REGULATORY CAPITAL VALUES AT 2009/10 PRICES

	2010 £m
Opening regulatory capital value for the year	* 4,513
Capital expenditure (excluding IRE)	* 270
Infrastructure renewals expenditure	48
Infrastructure renewals charge	(43)
Grants and contributions	(15)
Depreciation	(187)
Outperformance of regulatory assumptions (5 years in arrears)	(30)
Closing regulatory capital value	* 4,556
Average regulatory capital value	4,437

- * The table shows the regulatory capital value used in setting the price limits for AMP5 as published by Ofwat in April 2010, at March 2010 prices, with the exception of the average RCV, which is shown at average prices. The differences from the actual capital expenditure, depreciation etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

Regulatory Operating and Financial Review

INTRODUCTION

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

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

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

The Directors' Report on page 18 of the statutory financial statements of Yorkshire Water sets out the principal activities of the company, subsequent events and company's policy in respect of employees, employment practices, environment and community matters.

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

FINANCIAL PERFORMANCE

Profit before tax has decreased by £102.0m to £164.4m and operating profit has reduced by £28.3m to £312.6m since 2008/09. 2009/10 figures include exceptional costs of £60.9m within operating costs. 2008/09 figures included exceptional costs of £11.1m within operating costs. Excluding the impact of these exceptional items, profit before tax has reduced by £52.2m, and operating profit has increased by £21.5m.

Total regulated turnover for 2009/10 amounted to £859.2m, an increase of £31.0m (3.7%) over the 2008/09 total of £828.2m. Main charges income was £851.2m, an increase of 4.2% (£34.6m) over the previous year, largely as a result of the price increase of 5.5%, which was offset by a continued decline in consumption by measured domestic and business customers in the challenging economic environment. Domestic meter options also continued to have an adverse impact on income, with 28,573 new optants during the year.

Operating costs increased by £50.5m to £408.0m, which comprised regulated operating costs of £297.5m, exceptional costs of £60.9m and an infrastructure renewals charge of £49.6m.

Regulated operating costs increased by £4.5m (1.5%) from £293.0m in 2008/09. £1.5m of the increase relates to the impact of general inflation, which averaged at 0.5% for the year. The cost of bad debts rose by £1.6m as a result of additional write-offs reflecting the deterioration in collections from customers due to the current economic climate. In addition, chemical costs continued to increase by a further £0.6m, non-domestic rates increased by £2.6m, atypical costs as a result of the severe weather totalled £2.4m and the operating cost impact of capital investment increased by £2.1m, partially as a result of completion of capital schemes related to the Freshwater Fish Directive (FFD). The cost increases have been mitigated to some extent by continued efficiencies driven throughout the business and an £8.7m reduction from lower electricity prices and the impact of electricity consumption initiatives.

The IRC of £49.6m represents a £3.7m decrease compared to 2008/09. Infrastructure Renewals Expenditure (net of contributions) was £43.9m in 2009/10, and was reflected in the IRC calculation. The decrease in the IRC from previous years has resulted from the forecast infrastructure renewals.

Regulatory Operating and Financial Review

expenditure for the period 2010 - 2020 being updated following receipt of the Final Determination. The calculation also now covers the period 2005 - 2020 (compared to 2000 - 2015 in 2008/09) as more robust information is now available for the AMP6 period

The interest charge of £167.0m was £90.3m higher than 2008/09 £75.5m of the increase was driven by a reduction in interest receivable on index linked swaps. The interest receivable is linked to LIBOR and LIBOR is currently at historically low levels. In addition, £23.4m of the year on year movement was caused by movements in RPI on index linked bonds

Following the close of the whole business securitisation of Yorkshire Water on 24 July 2009 the debt held by Yorkshire Water and its subsidiaries was restructured, which resulted in £3,074.1m of net debt within Yorkshire Water at 31 March 2010. This was an increase of £234.7m from the previous year (£2,839.4m) and in turn this led to an increase in the net debt to RCV ratio to 67.5%, from 65.7%. This was calculated using an RCV at 31 March 2009 of £4,556.0m (2009 4,321.0m)

The tax charge for the year includes a current corporation tax charge of £51.4m, based on tax on profit on ordinary activities at 28%, and a deferred tax credit of £13.6m, reflecting a reduction to the discount applied to deferred tax following a reduction to relevant interest rates

Atypical and exceptional items

During the year Yorkshire Water incurred atypical costs of £2.4m and exceptional costs of £60.9m. The atypical costs related to the impact of the severe weather during January and February, leading to significant maintenance activity in the water distribution network and also increases to electricity costs as pumping activity increased to move water through the network and meet customer demand.

Costs of £2.2m were incurred following a whole business reorganisation, which involved the restructuring of the existing Water and EBU business units and creation of new operational units aligned with the new strategic direction (see Business Review, page 4)

As a result of the whole business securitisation in July 2009, Yorkshire Water made a £42.1m share capital injection into Yorkshire Water Services Odsal Holdings Ltd to enable the payment of accrued interest on exchanged bonds migrating into the new structure. Yorkshire Water is required to write down the investment in Yorkshire Water Services Odsal Holdings Ltd at the year end as the net asset of Yorkshire Water Services Odsal Holdings is lower than the amount invested. The cash will be returned to Yorkshire Water over the life of the exchanged bonds.

In addition, The York Waterworks Limited (YWW) paid its remaining reserves of £16.6m to Yorkshire Water during the year. Yorkshire Water was therefore required to impair its £16.6m investment in YWW in line with the remaining net assets of YWW. The impairment charge of £16.6m is therefore offset by investment income of £16.6m.

Donations to charitable trusts

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

Dividends

Interim dividend payments of £211.0m were made during the year (2009 £311.6m). No final dividend is proposed in respect of 2009/10. The dividends included £27.5m in respect of group tax relief purchased for other companies within the ultimate parent's group. In 2008/09 a special dividend of £180.1m was paid to Saltaire Water Ltd, an associated company, which has not been repeated during 2009/10.

Regulatory Operating and Financial Review

Cautionary statement

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

Directors' Responsibilities

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- a) ensuring that proper accounting records are kept by the Appointee as required by paragraph 3 of Condition F of the Instrument and having regard to the terms of any guidelines notified from time to time by Ofwat,
- b) preparing on a consistent basis in respect of each financial year accounting statements in agreement with the Appointee's accounting records and in accordance with the requirements of Condition F and any guidelines notified from time to time by Ofwat to the Appointee. So far as reasonably practicable these should have the same content as the annual accounts of the Appointee prepared under the Companies Act 2006 and be prepared in accordance with the formats and the accounting policies and principles which apply to those accounts,
- c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued to the Appointee from time to time

DISCLOSURE OF INFORMATION TO THE AUDITORS

As stated in the Directors' Report on page 26 of the statutory financial statements of Yorkshire Water, as far as each director is aware there is no relevant audit information of which the company's auditors are unaware and each director has taken such steps as he or she should have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditors are aware of the information

Other Regulatory Declarations

RING FENCING

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

DIRECTORS' CERTIFICATE - CONDITION F

The Directors declare that, in their opinion -

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

which are sufficient to enable it to carry out those functions

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

- a) the net worth of the company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2010 and the company's business plan for 2010/11;
- b) borrowing facilities which include significant committed undrawn bank facilities,
- c) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due,
- d) the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners
- e) the company's employment policies and strategy as described in detail in the Directors' Report on pages 20 to 22 of the statutory financial statements of Yorkshire Water

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

Independent Auditors' Report on the Regulatory Accounting Information

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

We have audited the Regulatory Accounts of Yorkshire Water Services Limited ("the Company") on pages 55 to 85 which comprise

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

This report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority ("the WSR") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the WSR those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the WSR 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 WSR, for our audit work, for this report or for the opinions we have formed.

Basis of preparation

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

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts as the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the WSR, the Directors and Auditors

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

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 80.

Independent Auditors' Report on the Regulatory Accounting Information

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

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2 03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3 06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4 03 (Guideline for the analysis of operating costs and assets), and whether the regulatory current cost accounting statements on pages 57 to 59 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03.

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

Basis of audit opinion

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

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not

Independent Auditors' Report on the Regulatory Accounting Information

accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit

The regulatory historical cost accounting statements on pages 55 and 56 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 the Companies Act 2006 is given on page 75

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2010 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 60 to 61, the state of the Company's affairs at 31 March 2010 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies

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

- a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument,
- b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,
- c) the regulatory historical cost accounting statements on pages 55 to 56 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4.03 issued by the WSRA,
- d) the regulatory current cost accounting statements on pages 57 to 59 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA.



PricewaterhouseCoopers LLP
Chartered Accountants

14 July 2010

Independent Auditors' Report on the Regulatory Accounting Information

1 The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites

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