Registered No.4636719

YORKSHIRE WATER SERVICES FINANCE PLC

Report and Financial Statements

31 March 2005

Registered No: 04636719

Directors
R K Ackroyd
A M Bainbridge
I Leece
K I Whiteman

Secretary
P J Hudson

Auditors
Ernst & Young LLP
Cloth Hall Court
14 King Street
Leeds
LS1 2JN

Registered office
Western House
Halifax Road
Bradford
BD6 2SZ

Directors' report

The directors present their report and financial statements for the period ended 31 March 2005.

Results and dividends

The loss for the period amounted to £2,859 (2004: £24). The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continues to be that of raising finance. No bonds were issued during the year.

Directors

The directors listed below have served the company throughout the year, unless otherwise stated:

R K Ackroyd
A M Bainbridge
I Leece
K I Whiteman

There are no directors' interests in the share capital of Yorkshire Water Services Finance plc requiring disclosure under Companies Act 1985.

K I Whiteman was also a director of the ultimate holding company, Kelda Group plc, and his share options and interests in the ordinary shares of Kelda Group plc are disclosed in the accounts of that company.

The interest of the other directors serving at the year end in the share capital of the ultimate holding company, Kelda Group plc were as follows:

Directors' share options

	At 1 April 2004	*Granted during year*	*Exercised during year*	*At 31 March 2005*	*Exercise price (p)*	*Date options exercisable*	*Date options expire*
R K Ackroyd							
Sharesave	1,008	-	-	1,008	366.0	1.3.07	31.8.07
Sharesave	-	1,233	-	1,233	461.0	1.3.08	31.8.08
A M Bainbridge							
Sharesave	2,407	-	-	2,407	275.0	1.3.07	31.8.07
Sharesave	1,771	-	-	1,771	320.0	1.3.06	31.8.06
I Leece							
Sharesave	2,953	-	-	2,953	320.0	1.3.06	31.8.06

Directors' report

Directors' share interests

	Ordinary shares At 1 April 2004	*Ordinary shares sold in year*	*LTIPs vested during year*	*Options Exercised in year*	*Ordinary shares at 31 March 2005*
R K Ackroyd	11,319	(5,000)	4,228	-	10,547
A M Bainbridge	112	(2,065)	1,953	-	-
I Leece	4,036	-	2,017	-	6,053

Long-term incentive plan of Kelda Group plc

	At 1 April 2004	*Granted during year*	*Dividend Shares*	*Vested during year*	*At 31 March 2005*	*Earliest Vesting Date*
R K Ackroyd	6,203	-	-	(6,203)	-	7.6.04
	5,741	-	-	-	5,741	11.6.05
	12,887	-	-	-	12,887	2.9.06
	-	9,960	-	-	9,960	27.5.07
A M Bainbridge	2,866	-	-	(2,866)	-	7.6.04
	2,683	-	-	-	2,683	11.6.05
	10,915	-	-	-	10,915	2.9.06
	-	8,599	-	-	8,599	27.5.07
I Leece	2,959	-	-	(2,959)	-	7.6.04
	2,738	-	-	-	2,738	11.6.05
	6,087	-	-	-	6,087	2.9.06
	-	4,356	-	-	4,356	27.5.07

Details of the plan are set out in the group accounts of Kelda Group plc.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

P J Hudson
Secretary

22 July 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Yorkshire Water Services Finance plc

We have audited the company's financial statements for the period ended 31 March 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 13. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2005 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Leeds
26 July 2005

Profit and loss account
for the period ended 31 March 2005

	Notes	2005 £	2004 £
Turnover		-	-
Administrative expenses		4,084	34
Operating loss	2	(4,084)	(34)
Interest receivable from group undertakings		17,205,685	16,913,118
Interest payable	4	(17,205,685)	(16,913,118)
Loss on ordinary activities before taxation		(4,084)	(34)
Tax on loss on ordinary activities	5	1,225	10
Loss for financial period		(2,859)	(24)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the loss of £2,859 (2004: £24) attributable to the shareholders for the period ended 31 March 2005.

Balance sheet
at 31 March 2005

	Notes	2005 £	2004 £
Current assets			
Debtors:			
Amounts falling due after one year	6	301,001,704	297,746,822
Amounts falling due within one year	6	1,745,071	1,738,183
Cash at bank and in hand		10,629	12,963
		302,757,404	299,497,968
Creditors: amounts falling due within one year	7	(1,708,586)	(1,701,173)
Net current assets		301,048,818	297,796,795
Creditors: amounts falling due after more than one year			
Long-term borrowings	8	(301,001,704)	(297,746,822)
		47,114	49,973
Capital and reserves			
Called up share capital	9	50,000	50,000
Profit and loss accounts	10	(2,886)	(27)
Equity shareholders' funds	10	47,114	49,973

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

Kevin Whiteman
Director

22 July 2005

Notes to the financial statements
at 31 March 2005

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

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

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

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

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

Financial instruments
Debt instruments are included in borrowings at the net proceeds received after the deduction of issue costs and any discount on issue. Discounts and issue costs are charged to the profit and loss account over the term of the debt at a constant rate on the balance sheet carrying amount. Realised gains and losses that occur from the early termination of debt instruments are taken to the profit and loss in that period.

2. Operating loss
This is stated after charging:

	2005	*2004*
	£	*£*
Administrative expenses	4,084	34

Auditors' remuneration has been borne by another group company.

Notes to the financial statements
at 31 March 2005

3. Staff costs

No salaries or wages have been paid to employees, including the directors, during the period.

The average number of persons employed by the company during the period was nil.

4. Interest payable

	2005	*2004*
	£	*£*
Interest payable on:		
5.375% bond 2023	10,753,138	10,730,908
3.048% index linked bond 2033	3,197,665	3,138,851
RPI uplift on 3.048% index linked bond	3,084,209	2,858,624
Amortisation of issue costs in respect of bonds	170,673	184,735
Interest payable	17,205,685	16,913,118

5. Taxation

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2005	*2004*
	£	*£*
Current tax:		
Group relief receivable	(1,225)	(10)

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is the same as the standard rate of corporation tax in the UK of 30%.

	2005	*2004*
	£	*£*
Loss on ordinary activities before tax	(4,084)	(34)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(1,225)	(10)
Unrelieved tax losses	-	-
Total current tax credit	(1,225)	(10)

Notes to the financial statements
at 31 March 2005

6. Debtors

	2005	*2004*
	£	*£*
Amounts owed by group undertakings - receivable within one year	1,745,071	1,738,183
Amounts owed by group undertakings – receivable after more than one year	301,001,704	297,746,822
	302,746,775	299,485,005

7. Creditors: amounts falling due within one year

	2005	*2004*
	£	*£*
Other creditors	1,708,586	1,701,173

8. Long-term borrowings

	2005	*2004*
	Book Value	*Book Value*
	£	*£*
Maturities		
Wholly repayable after five years:		
5.375% bond 2023	196,016,005	195,888,450
3.048% index linked bond 2033	104,985,699	101,858,372
	301,001,704	297,746,822

	2005
	Market Value
	£
Maturities	
Wholly repayable after five years:	
5.375% bond 2023	196,630,000
3.048% index linked bond 2033	118,453,000
	315,083,000

The fair values of the bonds at 31 March 2004 did not differ materially from the amounts included above.

Market values have been used to determine fair values.

Notes to the financial statements
at 31 March 2005

9. Share capital

	Authorised
	2005 and 2004
	£
Ordinary shares of £1 each	50,000

	Allotted and called up	
	No.	*£*
Ordinary shares of £1 each	50,000	50,000

The amounts of paid-up share capital for the following category of shares differed from the called-up share capital stated above due to unpaid calls and were as follows:

	2005 and 2004
	£
Ordinary shares	37,000

On 31 March 2005, £37,000 remained unpaid and is included in debtors above as amounts receivable from group undertakings.

10. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
As at 1 April 2003	50,000	(3)	49,997
Loss for the period	-	(24)	(24)
At 1 April 2004	50,000	(27)	49,973
Loss for the period	–	(2,859)	(2,859)
At 31 March 2005	50,000	(2,886)	47,114

11. Ultimate parent company

The company's immediate parent undertaking is Yorkshire Water Services Limited. The ultimate parent undertaking is Kelda Group plc, which is the parent undertaking of the smallest and largest group to consolidate these accounts. Copies of Kelda Group plc consolidated accounts can be obtained from the Company Secretary at Western House, Halifax Road, Bradford, BD6 2SZ

12. 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.

Notes to the financial statements
at 31 March 2005

13. Related parties
The company is a wholly owned subsidiary of Kelda Group plc, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the Kelda Group plc.