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Yorkshire Water First Finance Limited

Report and Financial Statements

31 March 2007

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COMPANIES HOUSE

Yorkshire Water First Finance Limited

Registered No 2180720

Directors

P Beaumont
S McFarlane

Secretary

R C Hill

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 the audited financial statements for the year ended 31 March 2007

Principal activities and review of business

The company is an investment holding company

The company has not traded during the year, the profit being generated from interest received from another group company. The directors do not have an immediate intention of making further investments.

Due to the nature of the business, there are no material risks or uncertainties which require disclosure.

Due to the nature of the business, key performance indicators are not applicable.

Results and dividends

The profit for the year after taxation amounts to £573,348 (2006: £547,714).

The directors paid an ordinary dividend during the year of £600,000 (2006: £500,000).

Directors' interests

The directors of the company during the year ended 31 March 2007 were as follows:

P Beaumont

P J Hudson (resigned 27 April 2007)

S McFarlane (appointed 27 April 2007)

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

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

	Ordinary shares at 1 April 2006	Ordinary shares at 31 March 2007
P Beaumont	1,681	7,078

Directors' share options

	At 1 April 2006	Granted during year	Lapsed during year	Exercised during year	At 31 March 2007	Exercise price (p)	Market price at date of exercise (p)	Date options exercisable	Date Options expire
P Beaumont	3,610	-	-	3,610	-	275	878.5	01 03 2007	31 08 2007
	2,053	-	528	1,525	-	320	917.0	01 03 2008	31 08 2008
	1,233	-	471	762	-	461	917.0	01 03 2008	31 08 2008
	636	-	-	-	636	588	-	01 03 2009	31 08 2009
	-	1,325	-	-	1,325	741	-	01 03 2012	31 08 2012

The market price of shares subject to these options at 31 March 2007 was 938.0p, (2006: 788.50p) and has ranged from 726.5p to 955.0p during the year. The aggregate gain on the exercise of the share options during the year was £34,365 (2006: £5,651).

Directors' report

Directors' interests (continued)

Long-term incentive plan of Kelda Group plc

Interests of the directors in the plan are

	<i>At 1 April 2006</i>	<i>Granted during year</i>	<i>Vested during year</i>	<i>Lapsed during year</i>	<i>At 31 March 2007</i>	<i>Earliest vesting date</i>
P Beaumont	3,483	-	1,650	1,833	-	03 09 2006
	2,516	-	-	-	2,516	28 05 2007
	2,608	-	-	-	2,608	01 06 2008
	-	5,160	-	-	5,160	13 06 2009

Details of the plan are set out in the group financial statements of Kelda Group plc

Directors' statement as to disclosure of information to auditors

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

Auditors

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

By order of the board



R C Hill

Secretary

23 July

2007

Statement of directors' responsibilities in respect of the financial statement

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and 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,
- 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 that 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 First Finance Limited

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and loss account, Statement of total recognised gains and losses, Balance sheet and the related notes 1 to 14. 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

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

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

Basis of audit opinion

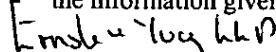
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

Opinion

In our opinion:

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


Ernst & Young LLP

Registered Auditor
Leeds

24 July 2007

Profit and loss account

for the year ended 31 March 2007

	Notes	2007 £	2006 £
Interest receivable	5	819,068	782,449
Profit on ordinary activities before taxation	2	819,068	782,449
Tax on profit on ordinary activities	6	(245,720)	(234,735)
Profit on ordinary activities after taxation		573,348	547,714

Statement of total recognised gains and losses

for the year ended 31 March 2007

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £573,348 for the year ended 31 March 2007 (2006 - £547,714)

Balance sheet

at 31 March 2007

	Notes	2007 £	2006 £
Current assets			
Debtors	7	16,668,353	16,684,020
Creditors amounts falling due within one year	8	(245,720)	(234,735)
Net current assets		<u>16,422,633</u>	<u>16,449,285</u>
Capital and reserves			
Called up share capital	9	15,800,002	15,800,002
Profit and loss account	10	622,631	649,283
Total equity shareholders' funds		<u>16,422,633</u>	<u>16,449,285</u>



P Beaumont

Director

23 July 2007

Notes to the financial statements

at 31 March 2007

1. Accounting policies

Basis of accounting

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

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

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

2. Operating profit

Auditor's remuneration has been borne by another group company

3 Directors' emoluments

All of the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company

4. Staff numbers

The average number of persons employed by the company during the year was nil (2006- nil)

5. Interest receivable

	2007	2006
	£	£
Interest receivable from group undertakings	819,068	782,449

Notes to the financial statements

at 31 March 2007

6. Tax on profit on ordinary activities

	2007 £	2006 £
(a) The tax charge is made up as follows		
<i>Current tax</i>		
UK corporation tax	245,720	234,735
	<u> </u>	<u> </u>
(b) Factors affecting current tax charge		
The tax assessed on the profit on ordinary activities for the year is in line with the standard rate of corporation tax in the UK of 30% (2006 - 30%), as detailed below		
Profits on ordinary activities before tax	819,068	782,449
	<u> </u>	<u> </u>
Profits on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2006 - 30%)	245,720	234,735
	<u> </u>	<u> </u>
Current tax charge for the year	245,720	234,735
	<u> </u>	<u> </u>

7. Debtors

Amounts falling due within one year

	2007 £	2006 £
Amounts owed by group undertakings	16,668,351	16,684,018
Called up share capital not paid	2	2
	<u> </u>	<u> </u>
	16,668,353	16,684,020
	<u> </u>	<u> </u>

8. Creditors: amounts falling due within one year

	2007 £	2006 £
Corporation tax	245,720	234,735
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 March 2007

9. Share capital

	2007 £	2006 £
Ordinary shares of £1 each Authorised	25,000,000	25,000,000
Allotted, called up and fully paid	15,800,000	15,800,000
Called up share capital not paid	2	2
Called up share capital	15,800,002	15,800,002

10. Movement on reserves

	<i>Called up share capital</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 April 2006	15,800,002	649,283	16,449,285
Retained profit for the year	-	573,348	573,348
Dividends approved and paid	-	(600,000)	(600,000)
At 31 March 2007	15,800,002	622,631	16,422,633

11. Reconciliation of shareholders' funds

	2007 £	2006 £
Shareholders' funds at 1 April	16,449,285	16,401,571
Profit attributable to shareholders	573,348	547,714
Dividends approved and paid	(600,000)	(500,000)
Shareholders' funds at 31 March	16,422,633	16,449,285

12. Cash flow statement

The company is a wholly owned subsidiary of Kelda Group plc and is included in the consolidated financial statements of Kelda Group plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

13. Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of Kelda Group plc or investees of Kelda Group plc.

Notes to the financial statements

at 31 March 2007

14. Ultimate parent undertaking

The company's immediate parent undertaking is Keyland Developments Limited, registered in England and Wales

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