Registered Number 06433799

KELDA HOLDCO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 MARCH 2011

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

Contents

Business Review

OUR BUSINESS

Kelda Holdco Limited and its subsidiaries, joint ventures and associates (the Group) is made up of several businesses:

Yorkshire Water
Yorkshire Water Services Limited (Yorkshire Water) is the principal UK subsidiary of the Group, providing water and waste water services to more than 4 9 million people and 130,000 businesses

Every day, Yorkshire Water supplies around 1.3 billion litres of water to homes and businesses in Yorkshire. Through the efficient operation of its extensive waste water network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment

Business strategy
- The pursuit of operational excellence.
- To grow our business and take on additional responsibilities
- To grow our influence to make the case for new responsibilities and investment

UK Service Operations
Kelda Water Services
Kelda Water Services Limited (KWS) is a major participant in the UK water and waste water contract operations market, with contracts during the year 2010/11 in England, Scotland, Wales and Northern Ireland

Business strategy
- Leveraging the value from Group assets and skills.
- Maximising value from our existing business
- Continuing to grow through new opportunities in the water, wastewater and related markets.

Loop
Loop Customer Management Limited (Loop) specialises in cost effective customer relationship management The company's main contract is to provide customer service support to Yorkshire Water

KeyLand
KeyLand Developments Limited (KeyLand) adds value to the Group's surplus property assets, usually by obtaining planning permission for the most beneficial use and selling into the market or undertaking development in partnership with others The results of KeyLand include the Group's share of its associates and joint ventures

Business strategy.
- To add value to the Group's surplus property assets and to maximise proceeds from the sale of those assets.

BUSINESS STRATEGY

Value

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

Our customers

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

Our people

The Group employs 3,138 people Our aim is to create a great place to work, with zero accidents, a good work-life balance and the opportunity to make a real difference. We want to attract and retain the best people, with performance and contribution recognised and rewarded and success celebrated as part of our culture

Environmental leadership

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

Society

Our aim is to make a difference to society, opening up land for public enjoyment and promoting the value of water, health and nutrition in schools Over 30% of colleagues are involved in community volunteering, external leadership roles and in influencing matters relating to water

Service partners

The Group companies have created a new level of partnership, understanding and transparency with their key service providers Our aim is to achieve a win-win-win, which means better customer service, lower costs and healthy profits for all To make this happen, we set clear expectations and encourage new ideas and innovation.

OPERATIONAL PERFORMANCE

Yorkshire Water Services Limited

2010/11 saw a good start to AMP5 (Asset Management Plan 2010-2015) despite the several operational challenges 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 for AMP5, coupled with a new capital investment programme, new contract partners and new, improved ways of working, provides a sound platform on which to achieve our vision, "Taking responsibility for the water environment for good"

Key performance indicators

	Target	**Current year**	Previous year
Overall customer satisfaction	4 55	**4.36**	-
Overall drinking water quality	99 975%	**99.972%**	99.961%
Waste water treatment works compliance	100%	**99.68%**	100%
Accidents -			
- major and over 3 day accidents	13	**15**	11
- all accidents	75	**192**	135

Explanation of measures provided in Appendix to Business Review on pages 17 and 18

Most efficient, lowest cost

The company's financial performance is described in detail on page 8

We remain a financially robust and resilient business In 2010/11 we invested an additional £6.2m to fund improvements in our leakage performance and incurred an additional £5 9m in extra costs due to the impact of the severe winter which gripped the Yorkshire region over Christmas and the New Year These additional costs were off-set by revenue generated from increased consumption earlier in the year due to the prolonged dry weather Also, we did not see the decline in business customer demand that was forecast at the start of the year against the backdrop of a challenging, national, economic climate

Best customer experience

There were no restrictions on water use in Yorkshire in 2010/11, despite the region's water resources coming under great pressure

High summer demand combined with below average long-term rainfall saw the region's reservoir stocks fall to 60% at the end of August, with all reservoirs falling below their normal control lines

Working closely with the Environment Agency we were able to increase the amount of water we put into supply to meet customer demand without adversely impacting on the region's water environment.

The prolonged cold spell and subsequent thaw over the Christmas and New Year period resulted in an unprecedented amount of water being put into supply On 28 December output peaked at 1,795 Ml/d (mega litres per day), with an average daily demand that week of 1,633Ml/d – some 333ml/d more than we would normally expect

This extraordinary increase in demand meant that production rates at our water treatment works reached levels never seen before To maximise production, many of our treatment works were manned round-the-clock

In October 2010, Ofwat published its levels of service report for 2009/10 which confirmed that, once again, we had the lowest levels of written complaints of any of the water and sewerage companies

Our performance in relation to Ofwat's new Service Incentive Mechanism was good, with our aggregated score for 2010/11 being 4 36, which ranks us second out of the ten water and sewerage companies and seventh out of all 21 companies (including water only)

In April 2010, we launched a major communications campaign to demonstrate to customers what good value for money their water charges represent. The campaign involved TV, radio and billboard advertising, as well as direct mail and social media.

Our 'Bin It, Don't Flush It!' campaign won a national award from the Chartered Institute of Public Relations

Our One Million Green Fingers environmental campaign won The Guardian newspaper's Public Service Award for Citizenship and Volunteering

In October 2010 we launched 'The Green Classroom' – a brand new educational resource to teach children about the water cycle and how to use water wisely

100% compliance

2010 was yet another year-on-year improvement for waste water treatment works compliance Three of the four quarters saw us record our lowest number of determinand failures ever Two waste water treatment works failed their numeric consents in 2010

In October 2010 we were informed by Ofwat that our leakage target for the previous year 2009/10 had been revised from 297Ml/d to 275Ml/d We had out-turned at 294Ml/d.

At the same time, Ofwat also announced that the serviceability of our water network had moved from 'stable' to 'marginal', largely as a result of an increase in the number of mains bursts and DG3 interruptions to supply lasting longer than 12 hours

In response, we announced plans to invest an additional £33m to address these issues.

The plan involved more than doubling the resources available to find and fix leaks, adopting a more proactive approach to pressure management and the roll-out of an extensive mains renewal programme to replace some of our oldest underground water mains.

Within a month we began implementing the plan with a view to reducing leakage to 297Ml/d by the end of the financial year However with the cold winter weather of 2010/11 turning out to be even worse than that of the previous year, we finally out-turned at 325Ml/d.

Zero accidents

In 2010/11, 15 major or over 3 day accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) were reported to the Health and Safety Executive (HSE)

Over the past year our health and safety activity has centred around three areas - performance, people and process We have developed a single, company-wide health and safety performance report to improve the visibility of performance across the business. We have also reviewed our ability to provide the business with coaching and leadership on hazard identification, risk control systems and incident prevention.

From a process point of view we have made improvements to health and safety databases to allow better collection and analysis of information and we have simplified the root cause analysis documentation process This will speed up the reporting and documenting process, improve investigation quality and allow for greater clarity of learning from the incidents that do occur.

In addition we have been reviewing and developing our occupational health and safety management systems to understand our gaps and to make sure that we are aligned with the HSE's 'Successful Health and Safety Management' approach.

World class asset management

During 2010/11 we have delivered a capital programme of £311m (gross) and £300.3m (net of all grants and contributions), including £0 2m preparation for the transfer of private sewers This is a 7% out-performance from the capital expenditure allowed in Ofwat's determination of prices Within the year, we have made good progress on our drinking water quality programme and are slightly ahead in our automated meter reading programme

In November 2010, Yorkshire Water officially launched its £110m programme of investment to not just meet but exceed the requirements of the Revised Bathing Water Directive. The company has created a new partnership board consisting of representatives from the Environment Agency, Welcome To Yorkshire and several local authorities

The best people and technology

In 2010/11 we completed the implementation of a new organisational design centred around two key business units – Production and Customer Service and Networks – and in-sourced 174 employees from Carillion, the company responsible for delivering our electrical and mechanical contract

We continue to have high levels of employee satisfaction at Yorkshire Water, with 67% regarding it as a "great place to work"

The dedication and commitment of colleagues across the business was demonstrated during the prolonged cold spell that gripped the Yorkshire region over Christmas and the New Year

Many colleagues worked tirelessly, often in appalling weather conditions, to answer customers' calls for help and protect their water and sewerage services. Many sacrificed their holidays and festive celebrations to do whatever was required to maintain customers' water supplies.

Our contract partners responded in a similar fashion, quickly identifying additional resources to deal with the increase in operational activity

In preparation for the transfer of private sewers in October 2011, Yorkshire Water and Loop launched a major drive to recruit more than 200 new employees The transfer of private sewers is an enormous undertaking, with Yorkshire Water taking on responsibility for an additional 22,000kms of sewers

Our Information Technology Department was named 'IT Department of the Year' at the 2010 UK IT Industry Awards

UK Service Operations

UK Service Operations comprises Kelda Water Services, Loop and Safe-Move Operating profit for the UK Service Operations group and its associated undertakings for the year to 31 March 2011 was £13 7m (2010: £13 7m), reflecting the continuing strong operating performances of existing businesses.

Kelda Water Services (KWS)

KWS is a leading UK water and waste water contract operations company. KWS continues to grow in its core market, providing water and waste water operations and maintenance under long term contracts In the year, KWS had turnover of £92 3m and operating profit of £12.5m (2010· £148 9m and £12 3m)

KWS currently operates across the UK through its wholly owned subsidiaries KWS Defence (England and Wales), KWS Grampian and Aberdeen Environmental Services (AES) (Scotland) and KWS Alpha (Northern Ireland)

In March 2010, Dwr Cymru (Welsh Water) announced its decision to insource all the activities covered by the Kelda Water Services (Wales) operations and maintenance contract, with a completion date of 1 May 2010 This contract was successfully closed out with KWS receiving the expected compensation along with a transfer of £11 0m of liabilities from the Kelda Group Pension Plan

KWS Alpha achieved its business plan targets despite suffering from some of the coldest weather ever recorded in Northern Ireland which caused significant damage to two of its plants

KWS Defence suffered a drop in turnover through reduced water consumption following the Government's Strategic Defence Review but maintained profitability through increased scope of work over and above the core contract.

The Scottish project received higher flows and loads than expected including over £1m of third party income for the first time

Loop

During 2010/11, Loop outperformed its financial targets with Yorkshire Water as well as delivering a number of significant service improvements.

2010/11 was the first year of the new Ofwat Service Incentive Mechanism (SIM) measures. Loop significantly overachieved against target on the SIM quantitative measure which looks at performance on abandoned and unwanted customer calls and written

complaints. Loop also continued to perform well in the qualitative measure and once again was placed in the top quartile of companies for customer satisfaction.
The continuing economic climate meant that income collection remained challenging. However, Loop's income generation team continued to perform well to bring in additional revenue and outperform its target for the year.

The situation regarding customer arrears remains a challenge, particularly with long term debt customers To mitigate this effect, Loop reorganised to provide additional resources to focus on long term debt, reviewed and increased activity on its hardship scheme and increased collections activities by additional field resources, use of High Court Sheriffs and the introduction of SMS texting for customers in arrears

Loop's operational performance stood up to a severe test during the exceptional weather conditions over the December/January holiday period when they dealt with an unprecedented volume of operational calls During this period, Loop operated a 24 hour call centre service and continued to provide a contact telephone service to help and give advice to any Yorkshire Water customers in need

During the year, Loop were successful in once again being placed in the Sunday Times 'Top 100 Companies to Work For' and also were winners of Best Customer Service Employer at the National Customer Service Awards

Safe-Move

Safe-Move is a non-regulated business which provides search information to solicitors and conveyancers, including information covering drainage and water services. The volume of business in Safemove has been impacted by the government decision to remove the requirement for Home Information Packs (HIPs).

KeyLand Developments (KeyLand)

Despite some improvement in levels of activity in the property market over 2010/11, conditions remain difficult with a great deal of pressure on rental values and very poor yields and proceeds from disposals caused, in part, by the reduced availability of finance

Successes included the letting of the final retail unit at Foss Island in York, leading to the remuneration conditions under the funding agreement being satisfied and the increased occupancy of Aquarius House on the Midpoint business park in Thornbury, Bradford enabling it to be sold to a private investor In both cases, the incentives required to secure tenants and the yields achieved had a significant impact on profitability.

The main trading success of the year was the disposal of the Mexborough water treatment works site to Ben Bailey Homes following protracted efforts to hold them close to the terms of the 2007 sale contract.

The Aire Valley in Leeds was the focus of the remaining joint venture activity including discussion with potential delivery partners

Keyland has also progressed legal, investigatory, feasibility and design works to deliver the serviced development platform for the Leeds Waste PFI Project

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2011	Year ended 31 March 2010
	£m	£m
Operating profit before exceptional items	**350.0**	381.3
EBITDA	**559.7**	580 8

Explanation of measures provided in Appendix to Business Review on page 17

Operating results for the year

The results for the year show an operating profit before exceptional items of £350 0m (31 March 2010: £381.3m) Of this, £368.3m (2010 £400 8m) is generated by Yorkshire Water's regulated water business. Note 3 to the financial statements shows the profit split by segment.

Exceptional items for the year

Exceptional items comprise the following:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Included in operating costs:		
Costs associated with exceptional weather conditions	**(5.9)**	-
Restructuring costs	-	(2 2)
Curtailment of KWS Wales element of pension scheme	**11.0**	-
Onerous contract provision	**(7.3)**	-
Negative goodwill on acquisition	-	9 4
	(2.2)	7 2
Included in finance costs:		
Movement on fair value of index linked swaps	**10.4**	(423 8)
Movement on fair value of interest rate swaps	**8.0**	-
	18.4	(423 8)

An exceptional cost of £5 9m has been incurred in relation to incremental costs associated with the severe winter weather A prolonged and severe winter period with snowfall arriving in the Yorkshire region during November 2010 resulted in significant additional costs being incurred relating to the management and repair of burst pipes and the resulting additional pumping costs to ensure customers were not without water. A Met Office report has demonstrated that this snowfall was the most significant and widespread since 1981

An exceptional credit of £11 0m has been recognised in relation to the curtailment gain in the Kelda Group Pension Plan (KGPP) in respect of the Kelda Water Services (Wales) Limited members who transferred to Dwr Cymru on termination of the contract between Dwr Cymru and KWS.

After the sale in 2007 of Kelda's US regulated water business, Aquarion Water Services Inc, the Group retained a contract to provide sewerage services to the city of Bridgeport, Connecticut, which expires in 2013 Previously it had been the intention of the Group to sell or terminate before the end of the contract and as such the trading, assets and liabilities have been classified within the financial statements as held for sale. Management have since decided that the contract will be maintained until it expires. The business is therefore no longer treated as held for sale and a review of the contract has resulted in an 'onerous contract' provision being created in relation to expected future losses This has resulted in an exceptional charge of £7 3m in 2010/11.

The fair value movement on index linked swaps is a result of index linked swaps which hedge Yorkshire Water's exposure to movements in the Retail Price Index (RPI) against its interest based on London Inter Bank Offer Rate (LIBOR) linked borrowings. They are of an average 38 years in length (being the remaining weighted average life of the swaps) and total £1 3bn. The swaps are held in Yorkshire Water and hedge against Yorkshire Water's floating rate borrowings

Under IFRS, these swaps must be valued at each reporting date at fair value, which at 31 March 2011 resulted in a £867 2m loss (2010 £854 8m) Of the year on year movement of £12.4m, £23 0m of RPI accretion has been recognised within finance costs and a credit of £10 4m has been recognised as an exceptional finance credit (2010 £423 8m charge) This has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met

The Group has no plans to terminate these swaps On completion of Yorkshire Water's covenanted long term financing structure, the break dates of the swaps were reprofiled to comply with the hedging policy for this structure

In addition there is a movement in the fair value of interest rate swaps, resulting in an £8 0m credit to the income statement. In previous years these swaps were considered an effective hedge and therefore previous movements in the fair value have been taken directly to reserves

Prior year exceptional items relate to negative goodwill of £9 4m on the acquisition of Kelda Water Services (Defence) Limited and Kelda Water Services (Estates) Limited and restructuring costs of £2 2m

Capital structure

During April 2010 Yorkshire Water issued new bonds, raising £635m including £450m of class B debt The Yorkshire Water business plan for 2010/11 expected £225m class B debt to be raised, but with significant demand from investors and low interest rate coupons available it was agreed to raise the additional funds whilst market conditions were positive.

As part of the process each Ratings Agency confirmed that the ratings for bonds issued by Yorkshire Water were stable, Class A bonds remain at "A" ratings and Class B bonds are BBB+ with Fitch, BBB with S&P and Baa3 (BBB- equivalent) with Moodys.

The proceeds of the issuance were used to repay existing drawings on the capital expenditure facility, distribute £550m to Kelda Holdco Limited, by way of internal loan, and the balance to repay the principal on the 2010 bond, due in late April.

Kelda Holdco Limited subsequently used £550m to repay a portion of the loan under the Senior Holdco Facility Agreement (SHFA).

The net debt to Regulated Capital Value (RCV) ratio, as defined under the SHFA, is based on an adjusted debt of £4,110.7m (2010: £3,936.9m) and has reduced in the year to

83 5% (from 86 4% at 31 March 2010) Despite the overall increase in adjusted net debt, the RCV has also significantly increased to £4,924.0m (2010: £4,556 1m) due to the movement in the RPI

Accounting policies

The Group financial statements have been prepared in accordance with the accounting policies described in note 2 to the financial statements.

Treasury policy

The Group'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 Common Terms Agreement and the SHFA Funds raised may be lent to or from the company at commercial rates of interest. Cash surplus to operating requirements is invested in short term instruments with institutions having a long term rating of at least A- or A3 and a short term rating of at least A1 or P1 issued by Standard & Poors and Moody's respectively.

LOOKING FORWARD

Yorkshire Water

Our new vision, "Taking responsibility for the water environment for good", is a Kelda-wide vision and points to growth which is centred on an economically, environmentally and socially sustainable water sector:

- Taking responsibility caring for water as a precious resource;
- The water environment Thinking about water and sewage in the context of the whole environment and playing a bigger role in the water environment; and
- For good Finding the best and most sustainable way to proceed in the long-term

We are developing initiatives which will articulate this vision and which will also drive business out-performance. Focussing on asset management, carbon and energy management and water demand management will deliver efficiencies in years 3, 4 and 5 of the AMP and also drive more sustainable outcomes for the business over the longer term

Robust plans are being developed in 2011/12 for each of these initiatives which will be implemented the following year.

- Asset management This project will bring together activity currently being undertaken across the business to develop a cross company asset management strategy which will lead to a single model for asset management,
- Carbon and energy This project will ensure that we drive significant carbon and energy reduction and will ensure that risks are understood and managed; and
- Demand management This project will seek to reduce the sustainable level of leakage and develop a significant customer water conservation initiative based on sound economics

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.

Yorkshire Water

We classify principal risks in six categories.
- Changes to the regulatory environment;
- Changes in legislation;
- Climatic changes,
- Changes in technology,
- Social influences; and
- Supplier markets.

Changes to the regulatory environment

The Big Transfer

This is the name that we are using within the business for the private to public sewer transfer From 1 October 2011 we will become responsible for an estimated additional 22,000km of pipeline – a significant change to our asset base

We have established a dedicated implementation project team to deliver this transfer The team has engaged internal business stakeholders to understand the requirements for the increased activity levels and has been working closely with external stakeholders

Revised Bathing Water Directive

From 2015 the EU's revised Bathing Water Directive comes into force, which aims to improve the quality of coastal waters Bathing waters will be classified by the Environment Agency as either poor, sufficient, good or excellent. We are the only UK water company aiming for 'excellent'.

Our £110m investment programme for the east coast was launched last year to improve our assets, and how we manage them, at 20 designated beaches along 100km of coastline from Staithes to Withernsea.

Ofwat Review

Yorkshire Water submitted evidence to the review of Ofwat in October 2010. The review sought evidence of Ofwat's role and activities in the following areas·

- Statutory Framework and decision making,
- Sustainable Development;
- Relations with other regulators and water and sewerage companies,
- Protecting, serving and representing customers; and
- Value for money

The Government is currently considering the responses to the Ofwat Review and will bring forward any changes in the Water White Paper in 2011

Changes in legislation

Water White Paper

By December 2011, the Department for Environment, Food and Rural Affairs have committed to examine the conclusions of the Cave and Walker Reviews and publish a White Paper on the reform of the water industry. The White Paper will examine more efficient uses of water and protection for poorer households The intention is to introduce suitable legislation as soon as parliamentary time allows from April 2012.

Natural Environment White Paper

In June 2011 the Government published a Natural Environment White Paper setting out measures to protect wildlife, promote green spaces and wildlife corridors, value natural capital and produce an analysis of the state of the UK's natural asset base (the National Ecosystems Assessment).

Environmental legislation

Government and European policy is increasingly focused on the environmental agenda, which creates both opportunities and challenges for Yorkshire Water 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

Local Government elections

In May 2011 Local Government elections took place across Yorkshire The major changes in political control were

- The Liberal Democrats lost overall control of Hull City Council and leadership of Sheffield and York Councils,
- The Conservatives took control of Harrogate and Ryedale Councils, and
- Labour took total control of Sheffield, York, Leeds and Hull City Councils

Yorkshire Water will engage with the political and administrative leadership of all councils as part of its annual local authority contact programme.

Climatic changes

Climate change – carbon reduction

Yorkshire Water is committed to managing its carbon emissions We are investing in renewable energy generation technologies such as combined heat and power (CHP) which we use to produce low carbon energy from sewage sludge. We are also reducing our energy needs through more efficient techniques and processes

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC) came into operation in April 2010. The Government announced important changes to the scheme in October 2010, effectively introducing a new carbon tax This change to the CRC will increase Yorkshire Water's costs.

Climate change – adaptation

Yorkshire Water recognises that, in the long-term and without advance preparations, climate change could challenge our core water and wastewater services We therefore established a strategic priority to adapt to climate change We are carrying out many activities in this area, for example we are investing to improve the resilience of critical assets and we are carrying out significant research to develop our understanding.

The Government identified Yorkshire Water as one of ninety organisations who are responsible for assets and services of critical importance to society We were asked to report on our preparations for climate change under the Adaptation Reporting Powers in the Climate Change Act (2008) In January 2011 we submitted our adaptation report to Defra, 'Maintaining levels of service in the changing climate' Feedback from Defra supported our approach and agreed with our plans to continue addressing this matter

Natural England

Natural England was one of the Government Agencies identified for substantial reform under the Coalition Government The immediate impact is a 32% reduction in their staff over two years and a review of their priorities and working procedures In response we are discussing the management of biodiversity data and the extensive wildlife designations such as Sites of Special Scientific Interest in Yorkshire to ensure we continue to have access to the latest information for our business planning, processes and decisions

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), water conservation is increasingly the norm and may place further downward pressure on water consumption and income

As part of our new vision, 'Taking Responsibility for the Water Environment for Good', we recognise the value of water to our society. We are therefore working on various demand management activities, including leakage reduction and other water conservation measures

Changes in technology

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, YouTube and Twitter which allow pressure groups to form quickly, share their views and form opinions.

Dealing with this new form of dialogue and engagement will be an increasing challenge for our corporate communications over the next five years We will be monitoring online conversations across social media channels to understand customer sentiment and provide help and advice where we can

Over the last 5 years we have seen a 20% year on year increase in website usage, with over 1 million customers visiting our website each year to pay bills, send meter readings and request water saving packs.

Social influences

Public confidence

With the effects of a changing climate becoming more visible, the public are increasingly likely to demand more involvement and a stronger say in the provision of water and waste water services Public activism will be highly relevant as we attempt to create advocacy to drive further investment and solve customers' problems

The skills agenda

Increasingly Yorkshire Water 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

To help build a highly skilled workforce for the future, Yorkshire Water recruited 9 apprentices in 2010 and intends to take on a further 11 in 2011.

Bad debt

In light of the current economic conditions and in particular the contraction of the public sector in Yorkshire higher levels of unemployment will continue This will have an impact on our customers and increase issues of affordability and debt

Supplier markets

A global economy

The national and international economic uncertainties may put pressure on Yorkshire Water's input costs. Yorkshire Water has significant and growing energy demands meaning the business model exposed to energy price fluctuations.

As clean and waste water regulatory standards become more stringent the energy requirements of conventional treatment techniques tends to increase. This correlation of increasing regulatory demands and energy usage will provide a challenging environment over the next ten to twenty years, particularly as the CRC has been implemented and we can expect increased 'carbon tax' in future

Non-regulated businesses

Kelda Water Services

KWS has a focused strategy based on water and waste water activities in the UK Unlike Yorkshire Water, it does not operate in a directly regulated environment Consequently its exposure to factors in the external environment is primarily limited to factors affecting the wider UK economy, although some procurement is affected by European and worldwide commodity pricing The most important factors to KWS are the retail price index (RPI), the financial marketplace and its impact on debt availability. The major environmental influence is climate change and its increasing influence on legislation which can be a risk but also creates new opportunities Increased pressure on Government finances also create new opportunities for outsourced activities from the public sector. As a result KWS is pursuing more opportunities than ever before.

Loop Customer Management

Loop's principal business is the provision of customer management services to Yorkshire Water, which includes billing and debt recovery The changing economic climate can, therefore, have a major impact on Loop's activities

Loop also provides a contact centre service to Yorkshire Water Therefore, failures of service by Yorkshire Water or severe weather conditions can also have an impact on Loop's operational call volumes This may impact on Yorkshire Water's performance in Ofwat's service incentive mechanism (SIM) which benchmarks and rewards companies' customer service

For 2011/12, the major change to impact Loop will be the implementation of legislation for Private to Public sewers which will potentially increase the number of operational calls received in the contact centre

KeyLand

KeyLand's primary operating strategy is to maximise value from properties and land released by Yorkshire Water by sale or development, either on its own or in combination with suitable partners

The main risks to KeyLand are:

- the quantity and type of sites becoming available for transfer,
- the fluctuating market conditions, which affect the value of properties or land, and
- changes, unpredictability and delays in the planning system

In the current prevailing market conditions, Keyland will concentrate on securing a supply of sites to be worked once conditions improve and, in the interim, focus on those disposals which are most resilient to the downturn or unlikely to improve with recovery.

FINANCIAL KEY PERFORMANCE INDICATORS

Operating profit

Operating profit is published in the group income statement.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is explained in note 4 to the financial statements, representing operating profit before the deduction of interest, tax, depreciation and amortisation costs

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 results of a survey conducted by Ofwat.

The KPI is an average satisfaction score based on a random sample of customers surveyed by Ofwat. All respondents will have contacted the company and had their issue resolved.

The score is based on the response to the following question:

"Taking everything into account how satisfied were you with the way they handled this enquiry/contact?"

Very satisfied	5
Fairly satisfied	4
Neither satisfied nor dissatisfied	3
Fairly dissatisfied	2
Very dissatisfied	1

Water quality

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

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

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

The measure we use is for overall drinking water quality which consists of the average compliance values for 39 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 (BOD) 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, 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 promotes excessive plant growth which upon decomposition strips oxygen from the water

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 2011

The directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2011

Financial results for the year

The profit for the year after tax was £89 6m (2010 loss of £186 7m) The Company did not pay any dividends during the year to its parent company (2010 £nil)

Business review

A review of the development and performance of the business of the Group, 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 18.

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 Group are the supply of clean water and the treatment and disposal of waste water Yorkshire Water, the Group's regulated utility business in the UK, is responsible for both water and waste water services.

Other businesses are the UK non-regulated water and waste water services business, KWS, and KeyLand, a company which primarily develops surplus property assets of Yorkshire Water

Directors

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

Richard Flint (appointed 1 April 2010)
Kevin Whiteman
Stuart McFarlane
Liz Barber (appointed 2 November 2010)

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency During the year, £4 5m was committed to research and development including £3 7m on non-current assets.

Non-current assets

The directors are aware that the value of certain land and buildings in the balance sheet may not be representative of its 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

Valuation of assets

The Group has adopted an accounting policy of valuation in respect of certain categories of fixed assets (residential properties, non-specialised properties and rural estates) which are held in the balance sheet at valuation (less accumulated depreciation), based on their existing use value

Further details are provided in note 13 to the financial statements

The policy of holding these assets at valuation rather than historic cost has no impact on bank covenants or on distributable reserves The policy is intended to better reflect the value of non-specialised land and buildings in the financial statements These assets will be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews

Payment of suppliers

The Group'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 period end bears to the amounts invoiced by suppliers during the year) is 38 days (2010: 43 days).

Employees and employment policies

The group 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 valued for their contribution and is a potential source of innovation and change. Internal consultation and communication processes provide the key to this involvement.

The group 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 group magazine *Connections* is distributed throughout the business and aims to provide business news through the eyes of the group's employees.

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

To promote successful employee relations, the group 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 union, communication and consultative forums take place across the group, comprising elected (union and non-union) employees who meet regularly with directors and senior managers

The group promotes freedom of association, principally through its diversity and inclusion strategy The group'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 Yorkshire Water 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 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 delivering out-performance is ensuring that every individual understands their role and how they can make a difference whilst feeling valued for their contribution 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

The group continually strives to attract, select and retain the best people. Looking to the future, there is a strong commitment and focus 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.

Health and safety

The group is committed to achieving high health and safety standards throughout its businesses. 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 group 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 group provides occupational health, safety and welfare advisory services for employees

Specific health and safety goals are also set for 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 group success. A Think Safety First programme was launched in Yorkshire Water 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 Yorkshire Water 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 group are intended to place emphasis on prevention and continuing vigilance Yorkshire Water has again been awarded a Gold Medal (recognising 8 consecutive Gold Awards) for Occupational Safety from the Royal Society for the Prevention of Accidents for its continued health and safety performance during 2010/11

Environment

The environmental policy of the Group 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 Group's website which can be viewed at http //csr keldagroup com

Community

The Group 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 Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds

Charitable and political donations

Charitable donations totalling £0.7m were made during the year (2010 £0 6m) No political donations were made (2010: £nil).

Independent auditors

The Group policy to safeguard the independence and objectivity of the external auditors is included in the corporate governance section on page 25

Financial instruments

Details are provided in the financial statements section under note 23

Likely future developments

Future events are dealt with on page 11 in the "Looking Forward" section

Annual general meeting

Kelda Holdco Limited has dispensed with the requirement to hold an annual general meeting.

Going concern

After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the Group 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 financial statements

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 Group'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 Group's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office

Statement of Directors' responsibilities

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 prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company 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 Group and the company and of the profit or loss of the Group 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; and
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' Report

for the year ended 31 March 2011

On behalf of the Board

Richard Flint, Director
15 July 2011

Company secretary: Stuart McFarlane

Registered address
Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Corporate Governance Report

for the year ended 31 March 2011

Corporate governance

Throughout the year the board remained accountable to the Group's shareholders for maintaining standards of corporate governance

Kelda Holdco Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to the Kelda Holdings group is detailed in the Annual Report and Financial Statements of that company. Their report includes details of the remuneration committee, audit committee, corporate social responsibility committee and internal control

The board of directors

The board held meetings where it is considered appropriate or where business needs required.

The Group has directors' and officers' liability insurance in place

At the end of the year, the board comprised four directors.

Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness 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 group and this has been in place for the year under review and up to the date of approval of the report and financial statements. 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 During the year, material joint ventures have been dealt with as part of the group for the purpose of applying the guidance.

The group has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities. There is a group procedure governing appraisal and approval of business development and investment expenditure Post completion reviews are required on significant business development projects and material investment expenditure.

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

Independent auditors' report to the members of Kelda Holdco Limited

We have audited the group financial statements of Kelda Holdco Limited for the year ended 31 March 2011 which comprise the Group income statement, Group statement of comprehensive income, Group balance sheet, Group statement of changes in equity, Group cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the statement of Directors' Responsibilities set out on page 23, 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 and express an opinion on 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 group'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 In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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 group financial statements are prepared is consistent with the group financial statements

Independent auditors' report to the members of Kelda Holdco Limited (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where under the Companies Act 2006 we are required to report to you if, in our opinion

- 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.

Other matter
We have reported separately on the parent company financial statements of Kelda Holdco Limited for the year ended 31 March 2011

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
15 July 2011

Group income statement

for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Group revenue	3	**950.7**	986 5
Operatıng costs before exceptıonal ıtems	4	**(600.7)**	(605 2)
Exceptıonal ıtems	5	**(2.2)**	7 2
Total operatıng costs		**(602.9)**	(598 0)
Group operatıng profit before share of associates and ȷoint ventures		**347.8**	388 5
Share of assocıates' and ȷoınt ventures' profıt/(loss) after tax	14	**0.2**	(2 7)
Group operatıng profit from continuing operations	3	**348.0**	385 8
Investment ıncome	7	**72.7**	88 5
Fınance costs	7	**(379.3)**	(311 5)
Exceptıonal fınance ıncome/(costs)	5	**18.4**	(423 8)
Total finance costs		**(360.9)**	(735 3)
Profit/(loss) from contınuing operations before taxatıon		**59.8**	(261 0)
Tax credıt	8	**29.8**	74 3
Profıt/(loss) for the year attributable to equıty shareholders		**89.6**	(186 7)

All materıal actıvıties relate ın both the current and prevıous year relates to contınuıng operatıons

Group statement of comprehensive income

for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Profıt/(loss) for the year		**89.6**	(186 7)
Other comprehensive income:			
(Losses)/gaıns on hedges taken to equıty		**(4.8)**	6 2
Actuarıal losses ın respect of defıned benefıt pensıon	21	**(5.7)**	(37 3)
Tax on ıtems taken dırectly to comprehensıve ıncome	8	**2.7**	8 7
Other comprehensive income for the year		**(7.8)**	(22 4)
Total comprehensive income for the year		**81.8**	(209 1)

Group balance sheet

as at 31 March 2011

	Note	2011 £m	2010 Restated £m
Non-current assets			
Intangible assets	11	**1,812.1**	1,812 8
Financial assets	12	**157.8**	-
Property, plant and equipment	13	**5,012.1**	5,064 5
Investments in associated undertakings and joint ventures	14	**2.7**	2 7
Loans to associated undertakings and joint ventures	14	**3.4**	1 8
		6,988.1	6,881 8
Current assets			
Inventories	15	**1.6**	5 5
Trade and other receivables	16	**229.9**	224 2
Cash and cash equivalents	17	**67.2**	26 9
Short term deposits	17	**41.4**	222 0
Assets included in disposal groups held for sale	9	**-**	9 0
		340.1	487 6
Total assets		**7,328.2**	7,369 4
Current liabilities			
Trade and other payables	18	**(449.0)**	(335 0)
Tax liabilities		**(24.8)**	(42 1)
Short-term borrowings	17	**(164.2)**	(218 4)
Liabilities included in disposal groups held for sale	9	**-**	(18 1)
		(638.0)	(613 6)
Non-current liabilities			
Long-term borrowings	17	**(4,070.8)**	(4,168 0)
Long-term payables	18	**(70.8)**	(69 8)
Financial liabilities	23	**(842.2)**	(855 9)
Deferred grants and contributions on depreciated assets	18	**(76.9)**	(73 4)
Retirement benefits deficit	21	**(40.0)**	(67 5)
Provisions	19	**(24.8)**	(6 1)
Deferred tax liabilities	20	**(588 1)**	(623 0)
		(5,713 6)	(5,863 7)
Total liabilities		**(6,351.6)**	(6,477 3)
Net assets		**976.6**	892 1
Capital and reserves attributable to equity holders of the group			
Ordinary shares	22	**1,473.5**	1,473 5
Hedging reserve		**(16.7)**	(13 2)
Revaluation reserve		**38.3**	37 5
Share-based payment reserve		**5.2**	5 1
Retained earnings - deficit		**(523.7)**	(610 8)
Total equity attributable to equity holders of the parent		**976.6**	892 1

The financial statements on pages 28 to 83 were approved by the board of directors on 15 July 2011 and signed on their behalf by

Liz Barber
Director

Registered Number 06433799

Group statement of changes in equity

as at 31 March 2011

	Ordinary shares £m	Hedging reserve £m	Revaluation reserve £m	Share-based payment reserve £m	Retained earnings £m	Total £m
At 31 March 2009	1,473 5	(17 6)	52 8	4 8	(399 0)	1,114 5
Loss for the year	-	-	-	-	(186 7)	(186 7)
Share based payment charge	-	-	-	0 3	-	0 3
Credit to income statement for surplus depreciation	-	-	(0 6)	-	0 6	-
Other movements	-	-	(14 7)	-	1 1	(13 6)
Total included in the Group statement of comprehensive income	-	4 4	-	-	(26 8)	(22 4)
At 31 March 2010	1,473 5	(13 2)	37 5	5 1	(610 8)	892 1
Profit for the year	-	-	-	-	89 6	89 6
Share based payment charge	-	-	-	0 1	-	0 1
Credit to income statement for surplus depreciation	-	-	(0 6)	-	0 6	-
Other movements	-	-	1 4	-	1 2	2 6
Total included in the Group statement of comprehensive income	-	(3 5)	-	-	(4 3)	(7 8)
At 31 March 2011	**1,473.5**	**(16.7)**	**38.3**	**5.2**	**(523.7)**	**976.6**

Group cash flow statement

for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Cash flows from operating activities	25	**525.0**	565 9
Income taxes paid		**(12.2)**	(37 3)
Interest paid		**(195.3)**	(280 6)
Net cash generated from operating activities		**317.5**	248 0
Cash flows from investing activities			
Acquisition of subsidiaries	11	**-**	(16 8)
Acquisition of associate	14	**-**	(0 5)
Dividends received from associates		**1.0**	1 4
Interest received		**3.2**	88 5
(Increase)/decrease in loans to associates and joint ventures		**(0.9)**	0 9
Proceeds on disposals of property, plant and equipment		**5.8**	5 6
Purchases of property, plant and equipment		**(231.9)**	(260 8)
Capital grants and contributions		**7.7**	10 4
Net cash used in investing activities		**(215.1)**	(171 3)
Cash flows from financing activities			
Borrowings raised (net of fees)		**703.4**	146 0
Repayment of loan to parent company		**(182.3)**	(96 8)
Repayments of borrowings		**(748.1)**	-
Repayment of obligations under finance leases and hire purchase agreements		**(15.7)**	(14 6)
Net cash used in financing activities		**(242.7)**	34 6
Net (decrease)/increase in cash and cash equivalents		**(140.3)**	111 3
Cash and cash equivalents at the beginning of the year		**248.9**	137 6
Cash and cash equivalents at the end of the year	17	**108.6**	248 9

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2011 were authorised for issue by the board of directors on 15 July 2011 and the balance sheet was signed on the board's behalf by Liz Barber, Director of Finance and Regulation Kelda Holdco Limited is a limited company incorporated and domiciled in England and Wales.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements is set out below These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting
The consolidated financial statements of Kelda Holdco Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 March 2011

The consolidated financial statements have been prepared under the historical cost convention except for certain categories of property, plant and equipment which are held at valuation, all derivative financial instruments and financial assets which have been measured at fair value, disposal groups held for sale which have been measured at the lower of fair value less cost to sell and their carrying amounts prior to the decision to treat them as held for sale and pension scheme liabilities that are measured using actuarial valuations

The adoption of IFRIC18 during the year has had no material impact on the group's financial statements with the exception of a balance sheet reclassification The interpretation applies to all agreements in which an entity received from a customer an item of property, plant or equipment (PPE) Its application is retrospective and has been applied to transfers of assets from customers received on or after 1 July 2009 Hence, restatement of the information presented for the year ended 31 March 2010 is required

The impact in the year ended 31 March 2011 in respect of transfers of assets from customers which were not previously accounted for is to record PPE of £40 7m (2010 £26 5m) with a credit of the same amount to deferred income within non current payables. The assets will be depreciated over their useful life and the deferred revenue released over the same period.

As a result of this interpretation, the group has presented a restated balance sheet at 31 March 2010

Basis of consolidation
The Group financial statements consolidate the financial statements of Kelda Holdco Limited and its subsidiaries The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

Foreign currencies
On an individual company basis, individual transactions denominated in foreign currencies are translated into functional currency at the actual exchange rates ruling at the dates of the

transactions Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the rates ruling at the balance sheet date Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement.

On consolidation, the income statements of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve Exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement

Goodwill arising on the acquisition of an overseas subsidiary, associate or joint venture is calculated using exchange rates applicable at the date of acquisition and is subsequently re-translated at each balance sheet date

Revenue
Revenue comprises charges to customers for water, waste water and environmental services, excluding value added tax Revenue excludes inter-company sales.

Revenue is not recognised until the service has been provided to the customer Revenue relates to charges due in the year, excluding any amounts paid in advance Revenue 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

Net operating costs
Net operating costs include the following

Dividends receivable
Dividends receivable are recognised when the shareholders' right to receive the revenue is established

Rental income
Rental income arising on investment properties is accounted for on a straight line basis over the lease term on ongoing leases

Other operating income
Profit relating to the sale of commercial and residential properties to third parties is included within other operating income, which is part of operating costs

Investment income
Interest receivable is recognised as the interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to the net carrying amount of the financial assets.

Dividends payable
Interim and final dividends payable are recognised on payment of the dividend

Research and development expenditure
Research expenditure is written off in the income statement in the year in which it is incurred.

Development expenditure is charged to the income statement except where the expenditure meets the criteria for recognition as an internally generated intangible asset as outlined in IAS 38 "Intangible assets". Where the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from the date of commissioning.

Taxation

Current tax

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions

- where the deferred income tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised, except

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly in equity in which case the current or deferred tax is reflected in equity

Goodwill and intangible assets
Goodwill represents the excess of the fair value of the consideration paid for a business over the fair value of the identifiable assets and liabilities acquired after costs incurred directly in relation to the transaction Goodwill is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable

Other intangible assets comprise capitalised bid costs and public to private service concession arrangements

Capitalised bid costs are recognised in relation to contracts won within the Group Bid costs are capitalised from the date a Group company is named as preferred bidder and then amortised over the shorter of the life of the contract or the period to the first renewal date If preferred bidder status is withdrawn, capitalised costs will be written off immediately

The group recognises an intangible asset in relation to a public to private service concession arrangement to the extent that it has a contractual right to charge users based on usage of the public service. The intangible asset is amortised on a straight line basis over the life of the concession arrangement

Property, plant and equipment
Residential properties, non-specialised properties and rural estates held within Land and Buildings are held at valuation. Other property, plant and equipment, including infrastructure assets, are included at cost less accumulated depreciation and any provision for impairment Finance costs incurred in respect of the construction of property, plant and equipment are not capitalised

Freehold land is not depreciated. Depreciation is charged on property, plant and equipment on a straight line basis over their estimated useful economic lives, or the estimated useful economic lives of their individual major components, from the date of commissioning

Useful economic lives are principally as follows:

Buildings	25 - 60 years
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Water mains and sewers	40 -125 years
Earth banked dams and reservoirs	200 years

Assets in the course of construction are not depreciated until commissioned

In the UK regulated water services business, infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage, reservoirs, dams and sea outfalls. The opening balance for infrastructure assets on transition to IFRS was calculated with reference to the estimated fair value of the infrastructure network as a whole at 1 April 2004 Subsequent expenditure is classified as operating expenditure or capital and accounted for appropriately.

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 there has been a material change. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the income statement

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset Prior to this date the Group recognised all borrowing costs as an expense immediately This change in accounting policy was due to the adoption of IAS23 'Borrowing costs'.

Impairment of property, plant and equipment and goodwill
The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable Useful lives and residual values are reviewed annually Where adjustments are required, these are made prospectively

Impairment on goodwill is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates Where the recoverable amount is less than the carrying amount, an impairment loss is recognised When an entity is disposed of, any goodwill associated with it is included in the carrying amount of the operation when determining the gain or loss on disposal

Accounting for leases
Finance leases
Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised, at the lower of the fair value of the leased property and the present value of future lease payments, in property, plant and equipment and the corresponding capital cost is shown as an obligation to the lessor in borrowings Depreciation is generally charged to the income statement 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 income statement over the term of the lease in proportion to the capital amount outstanding Any arrangement fees or other direct costs incurred on a finance lease are capitalised and amortised over the length of the lease.

Operating leases
Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases Lease payments are charged to the income statement on a straight line basis over the term of the lease

Government grants and contributions
Government grants and contributions in respect of property, plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate

Government grants which can be allocated against an individual asset are included as part of the carrying value of the asset Government grants which cannot be allocated to individual assets are held as deferred income and released to the income statement over the life of the grant

Investments in joint ventures and associates
The Group has a number of contractual arrangements with third parties which represent joint ventures, these take the form of agreements to share control over other companies The Group recognises its interest in the entity's assets and liabilities using the equity method of accounting.

The Group's interest in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting

Under the equity method, the investment in the joint venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group income statement reflects the share of the joint ventures' and associates' results after tax

Financial statements of joint ventures and associates are prepared for the same reporting period as the Group Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group The Group ceases to use the equity method on the date from which it no longer has shared control over or significant influence in the joint venture or associate Any unrealised gains or losses between the Group and its joint ventures and associates are eliminated on consolidation

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

Provisions
Provision is made for self insured claims incurred but not reported, and other known liabilities which exist at the year end as a result of a past event

Service concessions
IFRIC 12 'Service Concession Arrangements' addresses accounting by private sector operators involved in the provision of public sector infrastructure assets and services Relevant assets within its scope are classified as financial assets (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement), or intangible assets (where the operator's future cash flows are not specified), or a combination of both (where the operator's return is provided partially by a financial asset and partially by an intangible asset).

The service concession contracts of the group had fixed revenue streams and the related assets were therefore classified as financial assets

Financial instruments
Financial assets
Financial assets are recognised in relation to public to private concession arrangements to the extent that the group has a contractual right to receive cash of a specified and determinable amount independent of when and how much the service is used and the only risk of non-recovery is credit deterioration of the counterparty They are measured at fair value through profit and loss

Cash and cash equivalents
Cash equivalents include short term deposits with original maturity within 3 months For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts held with the same bank where there is a legal right and intention to offset.

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

Invoices for unmeasured water charges are due on predetermined dates, irrespective of date of receipt. Other trade receivables generally have 7-30 day payment terms. An estimate for doubtful debts is made when collection of the full amount is no longer probable Bad debts are written off when identified

Trade and other payables
Trade and other payables are not interest bearing and are stated at their nominal value

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Derivative financial instruments
The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability and unrecognised firm commitments, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction

In relation to cash flow hedges, which hedge highly probable forecasted transactions and which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged highly probably forecasted transaction results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit or loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement for the year These are classified as exceptional items within operating costs

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the year.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity and any gain or loss on the ineffective portion is recognised in the income statement On disposal of the foreign operation the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

Employee benefits

(a) Pension plans
(i) Defined contribution scheme
The Group operates three defined contribution schemes for those members of staff who are not members of its defined benefit scheme Two pension plans exist under which the Group pays a fixed contribution into a separate entity which operates the schemes The other provides the employees with a lump sum on retirement, with which they then invest in an annuity Other than this contribution, the Group has no further legal or constructive obligation to make further contributions to the scheme

Obligations for contributions to the scheme are recognised as an expense in the income statement in the year in which they arise

(ii) Defined benefit scheme
The Group operates a defined benefit scheme A defined benefit scheme is a pension plan under which the amount of pension benefit that an employee receives on retirement is defined by reference to factors including age, years of service and compensation

The scheme is funded by payments, determined by periodic actuarial calculations agreed between the group and the trustees to trustee administered funds

A liability or asset is recognised in the balance sheet in respect of the Group's net obligations to the scheme calculated separately for each scheme. The liability or asset represents the net of the present value of the defined benefit obligations at the balance sheet date, less the fair value of the scheme assets and past service costs

The defined benefit obligation represents the estimated amount of future benefits that employees have earned in return for their services in current and prior years, discounted at a rate representing the yield on a high quality corporate bond at the balance sheet date, denominated in the same currency as the obligations and having the same terms to maturity as the related pension liability, applied to the estimated future cash outflows arising from these obligations. The calculation is performed by a qualified actuary using the projected unit credit method Actuarial gains or losses (along with any deferred tax on them) are recognised in the statement of comprehensive income.

(b) Equity settled share based payments
Previously, Kelda Group plc 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 the income statement 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 income statement 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

The scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. 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 income statement will continue until the maturity of the scheme For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme

Share capital
Ordinary shares are classified as equity

Segmental reporting
The Group's primary reporting format is by business segment and its secondary format is by geographical segment A segment is a component of the Group which can be distinguished separately as providing a product or service within a particular environment which is subject to risks and rewards that are different from those of other segments The Group has identified 3 business segments

- UK Regulated Water Services – Yorkshire Water
- UK Service Operations – Kelda Water Services, Safe-Move and Loop
- Property Development – KeyLand

The directors' report details the activities of each segment

Transfer pricing between business segments is set on an arm's length basis similar to transactions with third parties

The Group's geographical segments are determined by the location of the Group's assets and operations

Disposal groups held for sale
On classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs to disposal. Profits or losses associated with these assets are classified as "profit for the year from discontinued operations" Impairment losses on initial classification as held for sale are also included in this classification, as are any gains and losses on subsequent re-measurement

Exceptional items
Exceptional items are items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

Principal areas of judgement
The directors consider the principal areas of judgement in the financial statements to be

- assumptions relating to the retirement benefit deficit;
- the timing of the reversal of deferred tax assets and liabilities;
- potential impairments to goodwill,
- fair value of assets and liabilities on acquisition, and
- fair value of derivatives and other financial instruments

New standards and interpretations

The Group has adopted the following new and amended IFRSs as of 1 April 2010 With the exception of IFRIC 18, (see page 32) none of the below have a material impact

IAS 32	'Financial instruments – Presentation – Classification of rights issues'
IFRS 1	'First time adoption of International Financial Reporting Standards (amendment)'
IAS 24	'Related party disclosures (revised)'
IAS 27	'Consolidated and separate financial statements (amendment)'
IFRIC 13	'Customer loyalty programmes'
IFRIC 14	'IAS 19 The limit on a defined benefit assets, minimum funding requirements and their interaction (amendment)'
IFRS 9	'Financial instruments'
IFRIC 17	'Distribution of non cash assets to owners'
IFRIC 18	'Adoption of assets from customers'

At the date of approval of these financial statements, the following standards and interpretation, which have not been applied in these financial statements, were in issue but not yet effective.

IAS 12	'Income taxes – amendment'
IFRS 7	'Financial instruments'
IFRS 10	'Consolidated financial standards'
IFRS 11	'Joint Arrangements'
IFRS 12	'Disclosure of interests in other entities'
IFRS 13	'Fair Value measurement'
IAS 1	'Presentation of financial statements (amendment)'
IAS 24	'Related party disclosures (amendment)'
IAS 28	'Investments in associates and joint ventures – revised'
IFRIC 19	'Extinguishing financial liabilities with equity instruments'

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the year of initial application

3. Segmental information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically The operating businesses are organised and managed separately according to the nature of the products and services provided

The segments shown are the segments for which management information is presented to the board which is deemed to be in the group's chief operating decision maker. The board considers the business from a business segment perspective

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties Segment revenue, segment expense and segment results include transfers between business segments Those transfers are eliminated on consolidation

It is not possible to split the retirement benefit deficit between the UK subsidiary companies. It is therefore recognised within the unallocated segment

Year ended 31 March 2011

	UK regulated water services	KWS - group	KWS - JVs	Loop	KeyLand - group	KeyLand - assoc	Other companies and consolidation adjustments	Total continuing	Reallocation to other operating income	Less associates and JVs	Total after reallocations
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue	859 6	105 8	9 7	22 1	8 0	0 9	10 0	1,016 1	(7 7)	(10 6)	997 8
Inter-company revenue	(2 8)	(23 2)	-	(20 8)	(0 3)	-	-	(47 1)	-	-	(47 1)
External revenue	**856 8**	**82 6**	**9 7**	**1 3**	**7 7**	**0 9**	**10 0**	**969 0**	**(7 7)**	**(10 6)**	**950 7**
Depreciation	(222 7)	(9 4)	-	(0 2)	(1 1)	-	24 4	(209 0)	-	-	(209 0)
Amortisation of deferred grant income	3 1	-	-	-	-	-	-	3 1	-	-	3 1
Other operating costs	(268 9)	(64 6)	(5 8)	0 1	(8 6)	(1 3)	(60 6)	(409 7)	7 7	10 6	(391 4)
	368.3	**8 6**	**3 9**	**1 2**	**(2 0)**	**(0.4)**	**(26 2)**	**353 4**	**-**	**-**	**353 4**
Exceptional items in operating costs								(2 2)	-	-	(2 2)
								351 2	**-**	**-**	**351 2**
Less associates' and joint ventures' interest								(2 8)	-	-	(2 8)
Less associates' and joint ventures' tax								(0 4)	-	-	(0 4)
Group operating profit from continuing operations								**348 0**	**-**	**-**	**348.0**
Investment income											72 7
Finance costs											(379 3)
Exceptional items in finance costs											18 4
Profit from continuing operations before taxation											**59 8**
Tax credit											29 8
Profit for the year attributable to equity shareholders											**89 6**

	UK regulated water services	KWS - group	Loop	KeyLand - group	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m	£m
Assets	9,187 3	311 5	5 8	44 6	(2,329 6)	7,219 6
Liabilities	(4,788 5)	(182 9)	(4 5)	(15 6)	2,874 9	(2,116 6)
Net debt	(3,554 7)	(100 5)	(0 3)	(0 1)	(470 8)	(4,126 4)
Net assets	**844 1**	**28 1**	**1 0**	**28 9**	**74.5**	**976 6**
Other information						
Capital additions	300.3	3 0	-	0 1	26 0	329 4

Net debt of £4,126 4m as noted above includes cash of £67 2m and short term deposits of £41.4m which are included in the balance sheet within total assets; and borrowings of £4,235 0m which are included on the balance sheet in total liabilities. Net debt is defined in note 23, and does not include financial liabilities

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards

The Group's geographical segments are based on the Group's assets Sales to external customers disclosed in geographical segments are based on the geographical location of its customers The Group's assets are located in the United Kingdom and North America The following provides an analysis of sales, assets and capital expenditure by geographical market.

	United Kingdom	North America	Total
	£m	£m	£m
Sales revenue	941 3	9 4	950 7
Carrying value of assets	7,212 8	6 8	7,219 6
Capital additions to property, plant and equipment	329 4	-	329 4

Year ended 31 March 2010

	UK regulated water services	KWS - group	KWS - JVs	Loop	KeyLand - group	KeyLand - assoc	Other non-reg and holding companies	Total continuing	Reallocation to other operating income	Less associates and JVs	Total continuing after reallocations	US operations (discontinued)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue	862 3	128 9	30 1	20 4	4 3	-	11 7	1,057 7	(3 3)	(30 1)	1,024 3	9 4	1,033 7
Inter-company revenue	(3 1)	(10 1)	-	(19 0)	(1 0)	-	(4 6)	(37 8)	-	-	(37 8)	-	(37 8)
External revenue	859 2	118 8	30 1	1 4	3 3	-	7 1	1,019 9	(3 3)	(30 1)	986 5	9 4	995 9
Depreciation	(193 2)	(8 6)	-	(0 3)	(2 1)	-	5 3	(198 9)	-	-	(198 9)	-	(198 9)
Amortisation of deferred grant income	3 0	-	-	-	-	-	-	3 0	-	-	3 0	-	3 0
Other operating costs	(268 2)	(103 5)	(24 5)	0 3	(2 2)	(3 4)	(39 0)	(440 5)	3 3	30 1	(407 1)	(9 4)	(416 5)
	400 8	6 7	5 6	1 4	(1 0)	(3 4)	(26 6)	383 5	-	-	383 5	-	383 5
Exceptional items in operating costs								7 2	-	-	7 2	-	7 2
								390 7	-	-	390 7	-	390 7
Less associates' and joint ventures' interest								(4 5)	-	-	(4 5)	-	(4 5)
Less associates' and joint ventures' tax								(0 4)	-	-	(0 4)	-	(0 4)
Group operating profit from continuing operations								385 8	-	-	385 8	-	385 8
Investment income											88 5		
Finance costs											(330 7)		
Exceptional items in finance costs											(404 6)		
Loss from continuing operations before taxation											(261 0)		
Tax expense											74 3		
Loss for the year attributable to equity shareholders											(186 7)		

Year ended 31 March 2010 (restated)

	UK regulated water services	KWS - group	Loop	KeyLand - group	Other companies and consolidation adjustements	Total continuing	US operations (discontinued)	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets	7,995 7	299 1	4 7	53 4	(1,241 4)	7,111 5	9 0	7,120 5
Liabilities	(4,260 3)	(171 7)	(4 8)	(23 4)	2,387 4	(2,072 8)	(18 1)	(2,090 9)
Net Debt	(2,907 3)	(103 0)	0 0	0 4	(1,127 6)	(4,137 5)	-	(4,137 5)
Net Assets	828 1	24 4	(0 1)	30 4	18 4	901 2	(9 1)	892 1
Other information								
Capital Additions	262 0	-	-	-	(18 1)	243 9	-	243 9

Net debt of £4,137.5m as noted above includes cash of £26 9m and short term deposits of £222.0m which are included in the balance sheet within total assets, and borrowings of £4,386 4m which are included on the balance sheet in total liabilities. Net debt is defined in note 23, and does not include financial liabilities

The Group's geographical segments are based on the Group's assets Sales to external customers disclosed in geographical segments are based on the geographical location of its customers The Group's assets are located in the United Kingdom and North America The following provides an analysis of sales, assets and capital expenditure by geographical market

	United Kingdom £m	North America (discontinued) £m	Total £m
Sales revenue	986 5	9 4	995 9
Carrying value of assets	7,111.5	9.0	7,120 5
Capital additions to property, plant and equipment	243 9	-	243 9

4. Operating costs before exceptional items

	2011 Total £m	2010 Continuing Operations £m	2010 Discontinued operations £m	2010 Total £m
Own work capitalised	(31.7)	(26 4)	-	(26 4)
Raw materials and consumables	27.4	21 4	-	21 4
Other external charges	267.3	284.0	13 2	297 2
Staff costs (note 6)	114.9	117 4	-	117 4
Depreciation of property, plant and equipment (note 13)				
On owned assets				
- UK infrastructure	34.8	30 3	-	30 3
- other assets	162.8	157.5	-	157 5
On assets held under finance lease				
- UK infrastructure	2.3	1 9	-	1 9
- other assets	9.1	9 3	-	9 3
Operating lease rentals - minimum lease payments				
- plant and equipment	2.0	2 1	-	2 1
- other	0.7	0 4	-	0 4
Amortisation of grants and contributions	(3.1)	(3 0)	-	(3 0)
Amortisation of intangible assets (note 11)	0.7	0 5	-	0 5
Research and development	4.5	0 8	-	0 8
Impairment of trade receivables	16.2	14 4	-	14 4
Other operating income	(7.2)	(5 4)	-	(5 4)
	600.7	605 2	13 2	618 4

There have been no operations classified as discontinued during the year ended 31 March 2011

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items is calculated as follows

	2011 £m	2010 £m
Group operating profit before share of associates and joint ventures	347.8	388 5
Add back exceptional items	2.2	(7 2)
Add back depreciation (as above)	209.0	199 0
Add back amortisation of intangible assets (as above)	0.7	0 5
EBITDA	559.7	580 8

Auditors' remuneration

Services provided by the group's auditor are analysed as follows

	2011 £m	2010 £m
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	**0.2**	0 2
Fees for other services	**0.2**	-
Fees payable to the group's auditor for other services		
- The audit of company's subsidiaries pursuant to legislation	**0.1**	0 1
- Other services pursuant to legislation	**-**	0 1
	0.5	0 4

5. Exceptional items

Exceptional items comprise:

	2011 £m	2010 £m
Included in operating costs:		
Onerous contract provision	**(7.3)**	-
Severe weather costs	**(5 9)**	-
Curtailment of KWS Wales portion of pension deficit	**11.0**	-
Restructuring costs	**-**	(2 2)
Negative goodwill on acquisition	**-**	9 4
	(2.2)	7 2
Included in finance costs		
Movement on fair value of index linked swaps	**10.4**	(423 8)
Movement on fair value of interest rate swaps	**8.0**	-
Movement on fair value of swaps	**18.4**	(423 8)

A review of the contract to provide sewerage services to the City of Bridgeport in Connecticut, US which is due to terminate in 2013, has resulted in an onerous contract provision being created in relation to expected future losses This has resulted in an exceptional charge of £7 3m in 2010/11

An exceptional cost of £5 9m has been incurred in relation to the severe winter weather A prolonged and severe winter period with snowfall arriving in the Yorkshire region during November 2010 resulted in significant additional costs being incurred relating to the management and repair of burst pipes and the resulting additional pumping costs to ensure customers were not without water A Met Office report has demonstrated that this snowfall was the most significant and widespread since 1981

An exceptional benefit of £11.0m has been recognised in relation to the curtailment gain in the Kelda Group Pension Plan (KGPP) in respect of the Kelda Water Services (Wales) Limited members who transferred to Dwr Cymru on termination of the contract between Dwr Cymru and Kelda Water Services Limited

The movement of fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in RPI by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2011 resulted in a £867.2m loss (2010: £854.8m).

Of the year on year movement of £12 4m, a charge of £22.8m relating to RPI accretion has been recognised within finance costs and a credit of £10 4m has been recognised as an exceptional finance income. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met

The movement of fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2011 resulted in a £10.3m loss (2010. £18 3m) The year on year movement of £8 0m has been recognised as an exceptional finance income This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met In previous years these swaps both qualified as, and were treated as, cash flow hedges and the movement of fair value of finance lease swaps recognised directly in reserves. The interest charged or credited to the income statement in relation to these swaps is shown in note 7

Prior year restructuring costs relate to redundancy and other restructuring costs within Yorkshire Water

Negative goodwill arose during 2009/10 of £9.4m on the acquisition of Kelda Water Services (Defence) Limited and Kelda Water Services (Estates) Limited Under IFRS this has been credited immediately to the income statement as an exceptional credit (note 11)

6. Directors and employees

Average monthly number of people employed by the group	**2011 Number**	2010 Number
Continuing operations:		
UK regulated water services	**2,329**	2,132
Other activities	**809**	1,226
	3,138	3,358

	2011 £m	2010 £m
Total employment costs:		
Wages and salaries	**91.0**	97 1
Social security contributions	**8.2**	8 5
Other pension costs	**15.7**	11 8
	114.9	117 4

Included in wages and salaries is a total share-based payment expense of £0 1m (2010: £0.3m), all of which relates to transactions accounted for as an equity-settled share-based payments.

Directors' emoluments

	2011	2010
	£m	£m
Aggregate emoluments	**1.6**	2 0
The amounts ın respect of the hıghest paıd dırector are as follows		
Emoluments	**0.6**	1.3

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

Durıng 2010/11, all executıve dırectors except one were contrıbutory members of the Kelda Group Pensıon Plan, a defıned benefıt scheme The accrued pensıon benefıt of the hıghest paıd dırector ın 2010/11 was £0 2m (2010 £0 2m) One dırector has exercısed share optıons durıng the year

7. Investment income and finance costs

	2011 £m	2010 £m
Investment income		
Interest on bank deposits	**2.0**	9 2
Income from swaps	**15.6**	38 1
Return on pension scheme assets (note 21)	**55.1**	41 2
Total investment income	**72.7**	88 5
Finance costs		
3.0544% guaranteed bonds 2010	**0.2**	4 6
6 875% guaranteed bonds 2010	**0.3**	8 2
6 5876% guaranteed bonds 2010	**2.0**	1 4
6% guaranteed bonds 2019	**16.9**	11 6
6 5876% guaranteed bond 2023	**11.9**	8 2
5 375% guaranteed bond 2023	**0.5**	2 8
6% guaranteed bonds 2025	**26.0**	-
5 5% guaranteed bond 2027	**0.5**	2 5
6 454% index linked guaranteed bond 2027	**8.7**	6 0
6 6011% guaranteed bond 2031	**16.8**	11 5
6 625% guaranteed bond 2031	**0.1**	6 0
3 048% index linked guaranteed bond 2033	**0.1**	1 2
3 3066% index linked guaranteed bond 2033	**10.4**	1 4
5 5% guaranteed bond 2037	**11.1**	10 6
6 375% guaranteed bonds 2039	**12.9**	8 8
2 718% index linked guaranteed bonds 2039	**14.3**	8 5
6 375% guaranteed bonds 2039	**5.3**	-
2 718% index linked guaranteed bonds 2039	**8.7**	-
1 8225% index linked guaranteed bonds 2050	**4.8**	3 7
1 462% index linked guaranteed bonds 2051	**9.0**	6 9
1 75756% index linked guaranteed bonds 2054	**6.3**	4 8
1 46% index linked guaranteed bonds 2056	**9.0**	6 9
1 7085% index linked guaranteed bonds 2058	**7.3**	5 6
Amortisation of issue costs in respect of bonds	**2.6**	1 0
Total finance costs for bonds	**185.7**	122 2
Bank loans and overdrafts	**35.5**	55 1
Other loans	**85.9**	66 6
Finance leases	**7.2**	9 8
Change in fair value of financial assets	**9.1**	-
Interest payable to parent companies	**6.5**	11 8
Interest cost on pension scheme liabilities (note 21)	**49.4**	46 0
Total finance costs	**379.3**	311 5

£1.0m of interest has been capitalised by the Group during the year (2010 £1 6m)

8. Tax credit

	2011 £m	2010 £m
Current tax		
UK corporation tax at 28%	**14.7**	34 4
Adjustments in respect of previous periods	**(13.7)**	1 3
Total current tax from continuing operations	**1.0**	35 7
Deferred tax		
UK charge for temporary differences arising and reversing in the year	**-**	(108 9)
Effect of change in tax rates	**(30.3)**	-
Over provision in respect of previous periods	**(0.5)**	(1 1)
Total deferred tax on continuing activities (note 20)	**(30.8)**	(110 0)
Total tax credit on profit on ordinary activities	**(29.8)**	(74 3)

	2011	2010
Tax relating to items credited to equity		
Deferred tax:		
Actuarial losses in respect of defined benefit pension schemes	**(1.5)**	(10 4)
Gain/(losses) on hedges	**(1.2)**	1 7
Tax credit in the Group statement of comprehensive income	**(2.7)**	(8 7)

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 28% (2010 28%) to the loss on ordinary activities before tax is as follows

	2011 £m	2010 £m
Profit/(loss) from continuing operations before taxation	**59.8**	(261 0)
Less share of associates' and joint ventures' taxation	**0.4**	0 4
Profit/(loss) on ordinary activities before tax	**60.2**	(260 6)
Less share of associates' and joint ventures' (profit)/loss before tax	**(0.7)**	2 3
Group profit/(loss) on ordinary activities before tax	**59.5**	(258 3)
Current and deferred tax on group loss on ordinary activities at the standard UK tax rate	**16.7**	(72 3)
Effects of		
Income not chargeable for tax purposes	**-**	(5 3)
Expenses not deductible for tax purposes	**14.7**	3 1
Change in deferred tax rate	**(47.0)**	-
Adjustments in respect of prior periods	**(14.2)**	0 2
Group current and deferred tax credit for the year	**(29.8)**	(74 3)

The March 2011 Budget introduced a reduction in the rate of corporation tax from 28% to 26% from 1 April 2011 (The rate was previously to be reduced from 28% to 27% from 1 April 2011 by the Finance (No 2) Act 2010) Further reductions in the rate of corporation tax were proposed to reduce the rate by 1% per annum to 23% by 1 April 2014

The decrease in the rate to 26% was substantively enacted for the purpose of International Financial Reporting Standard 12 "Income taxes" and therefore deferred tax assets and liabilities are measured upon this new 26% rate

The proposed reductions of the rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year The overall effect of the further change from 26% to 23%, if applied to the deferred tax balance at 31 March 2011, would be to reduce the deferred tax liability by £67 1m (being £22 4m in 2012, £22 4m in 2013 and £22 3m in 2014)

Subsequent to the balance sheet date the reduction in the rate of corporation tax to 25% was enacted on 5 July 2011

The deferred tax credit for the year relates to the following

	2011	2010
	£m	£m
Accelerated depreciation for tax purposes	**(71.2)**	(7 5)
Fair value adjustment of infrastructure assets	**2.3**	3 0
Roll-over relief	**(0.1)**	-
Financial instruments	**30.7**	(106 9)
Retirement benefit obligations	**7.5**	1 4
Deferred tax credit	**(30.8)**	(110 0)

9. Discontinued operations

The Group owns a company trading in the US which was classified as discontinued in the comparative financial statements

After the sale in 2007 of Kelda's US regulated water business, the Group retained a contract to provide sewerage services to the city of Bridgeport, Connecticut, which expires in 2013 Previously it has been the intention of the Group to sell or terminate before the end of the contract and as such the trading, assets and liabilities have been classified within the financial statements as held for sale Management have since decided that the contract will be maintained until it expires. The business is therefore no longer treated as held for sale

A review of the contract has resulted in an onerous contract provision being revised in relation to expected future losses of £18.0m This has resulted in an exceptional charge of £7 3m in 2010/11

The major classes of assets and liabilities relating to US operations included in disposal groups held for sale.

	2011	2010
	£m	£m
Assets		
Trade receivables	**-**	9 0
Liabilities		
Trade and other payables	**-**	(18 1)

10. Dividends

No dividends were paid during the year (2010 £nil).

11. Intangible assets

	Capitalised bid costs £m	Goodwill £m	Total £m
Cost			
At 1 April 2009	-	1,799 2	1,799 2
On acquisition of subsidiaries	15 9	0 2	16 1
Adjustment to goodwill on Kelda acquisition	-	0 9	0 9
At 31 March 2010 and 31 March 2011	**15.9**	**1,800.3**	**1,816.2**
Amortisation			
At 1 April 2009	2 9	-	2 9
Amortisation	0 5	-	0 5
At 31 March 2010	3 4	-	3 4
Amortisation	0 7	-	0 7
At 31 March 2011	**4.1**	**-**	**4.1**
Net book value carried forward	**11.8**	**1,800.3**	**1,812.1**
Net book value brought forward	12 5	1,800 3	1,812 8

Goodwill on acquisition of subsidiaries in the prior year relates to the purchase of Dalriada Water Holdings Limited and Dalriada Water Services Limited by Kelda Water Services Limited on 14 May 2009. This consisted of 50% of the ordinary shares of both companies, bringing the Group's ownership of these two companies to 100%

In addition, on 22 October 2009, Kelda Water Services Limited purchased the remaining 50% of the issued share capital of BREY Utilities Limited and BREY Services Limited This brought the Group's ownership of these two companies to 100% The negative goodwill of £9 4m arising on acquisition was credited directly to the income statement.

Total costs of acquisition amounted to £28 5m. After taking account of the cash held within the subsidiary companies of £11 7m, a net cash flow of £16 8m arose on acquisition

Impairment tests for goodwill

Existing goodwill of £1,800 3m is all allocated to the UK regulated water services business segment The recoverable amount of the UK regulated water services segment is determined based on a value in use calculation, using post tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long term business modelling covering a 50 year period

The key assumptions used for the value-in-use calculation are as follows

	2011	2010
Long term inflation (post 2011)	**2.75%**	2 75%
Discount rate (post-tax, before inflationary growth)	**9.20%**	4 50%

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2011 or year ended 31 March 2010

12. Financial assets

	£m
At 31 March 2010	-
Transferred from property, plant and equipment (PPE)	166 9
Additions	-
Movement in fair value	(9 1)
At 31 March 2011	**157.8**

The transfer of financial assets from PPE during the year ended 31 March 2011 arose due to the adoption of IFRIC 12 'Transfers of assets from customers'.

On 30 May 2006 the company entered into a Public Private Partnership (PPP) concession agreement with the Northern Ireland Water Service, an executive agency of the Department for Regional Development, to design, build and finance four clean water treatment works around Lough Neagh and to operate and maintain these works over a 25 year period The authority has subsequently been incorporated as a Government Company and is now referred to as Northern Ireland Water

Under the terms of the contract the group earns a Unitary Charge from Northern Ireland Water in return for providing the required quantity of water to Northern Ireland Water at each of the specified sites to the specified water quality standards. In addition the group has a contractual right to charge for use of the assets

The assets designed, built and maintained under the PPP agreement with Northern Ireland Water are contractually required to be novated to Northern Ireland Water at nil cost at the end of the agreement

On 22 October 2009, the group acquired a further 50% shareholding in a joint venture which is party to a Public Private Concession Contract (PPCC) with the Ministry of Defence for water and waste water services covering the areas of Wales and the South West of England for a 25 year period which commenced on 1 December 2003 The contract sets out the obligations of the group in respect of mandatory works to develop existing infrastructure to specified standards. The exisiting infrastructure was transferred to the group at nil cost from contract commencement

Under the terms of the contract the group earns a Unitary Charge from the Ministry of Defence in return for providing the required quantity of water and water treatment to the Ministry of Defence at each of the specified sites to the specified water quality standards In addition the group has a contractual right to charge for use of the assets

The assets novated, improved and maintained under the PPCC with the Ministry of Defence are contractually required to be novated to the Ministry of Defence at nil cost at the end of the agreement.

The construction and development phase of both contracts disclosed above is deemed to be materially complete and no revenue, profits or losses were recognised during the period on exchanging contruction services for a financial asset In addition, management deem that assets falling within the scope of the contracts are maintained to the standards required by the contract. As such no provision for further construction or maintainance obligations has been recognised in these financial statements.

Notes to the financial statements (continued)

for the year ended 31 March 2011

13. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2010 restated	1,686 2	3,050 8	2,686 4	221.7	7,645 1
Additions at cost	14 3	52 2	45 2	227.7	339 4
Grants and contributions	-	-	-	(10.0)	(10 0)
Transfers on commissioning	32 1	34 5	78 4	(145.0)	-
Disposals	(15 0)	(3 3)	(28 3)	(0.5)	(47 1)
Transferred to financial assets	-	-	(181 9)	-	(181 9)
At 31 March 2011	**1,717.6**	**3,134.2**	**2,599.8**	**293.9**	**7,745.5**
Accumulated depreciation					
At 1 April 2010	367 6	998 0	1,215 0	-	2,580 6
Charge for the year	32 4	37 1	139 5	-	209 0
Disposals	-	(13 1)	(28 1)	-	(41 2)
Transferred to financial assets	-	-	(15 0)	-	(15 0)
At 31 March 2011	**400.0**	**1,022.0**	**1,311.4**	-	**2,733.4**
Net book amount at 31 March 2011	**1,317.6**	**2,112.2**	**1,288.4**	**293.9**	**5,012.1**

Certain items of plant and equipment have been transferred to financial assets following adoption of IFRIC 12 "Service Concession Contracts" Refer to note 12 for more information

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2009	1,553 8	2,965 9	2,276 0	413 2	7,208 9
On acquisition of subsidiary	3 6	-	166 0	7 7	177 3
Additions at cost	35 7	25 4	91 3	104 2	256 6
Grants and contributions	-	-	-	(12 7)	(12 7)
Transfers on commissioning	100 4	33 3	156 4	(290 1)	-
Disposals	(7 3)	-	(3 3)	(0 6)	(11 2)
At 31 March 2010 as previously reported	1,686 2	3,024 6	2,686 4	221 7	7,618 9
Adjustment for IFRIC 18 (note 28)	-	26.2	-	-	26 5
At 31 March 2010 as restated	1,686 2	3,050 8	2,686 4	221 7	7,645 4
Accumulated depreciation					
At 1 April 2009	336 1	967.7	1,075 5	-	2,379 3
On acquisition of subsidiary	0 3	-	7 8	-	8 1
Charge for the period	33 3	30.3	135 4	-	199 0
Disposals	(2 1)	-	(3 7)	-	(5 8)
At 31 March 2010 as previously reported	367 6	998.0	1,215 0	-	2,580 6
Net book amount at 31 March 2010 restated	1,318 6	2,052.8	1,471 4	221 7	5,064 5
Net book amount at 1 April 2009	1,217 7	1,998.2	1,200 5	413 2	4,829 6

Assets included above held under finance leases amount to

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost	126 1	100 0	197 6	**423 7**
Depreciation	(33 6)	(21 7)	(125 4)	**(180.7)**
Net book amount at 31 March 2011	**92.5**	**78.3**	**72.2**	**243.0**
Cost	126 4	100 0	206 1	432 5
Depreciation	(31 7)	(19 4)	(124 0)	(175 1)
Net book amount at 31 March 2010	94 7	80 6	82 1	257 4

Certain categories of the Group's land and buildings were revalued at 31 March 2009, on the basis of existing use value by independent qualified valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom by the following surveyors.

Non-specialist properties	DTZ Debenham Tie Leung Limited
Rural estates	Carter Jonas LLP
Residential properties	Savills (L&P) Limited

The revaluations were based on values as at 31 March 2009

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluation surplus as at 31 March 2011 is £51.6m (2010 £52.2m) offset by a provision for deferred tax on the revalued amount of £13 4m (2010: £14 7m).

Categories of assets revalued are as follows

	Revalued amount £m	Historical cost basis £m
Non-specialist properties	7 5	2 4
Rural estates	43 9	0.8
Residential properties	4 7	0.1
Net book amount of asset revalued	**56.1**	**3.3**

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

	Revalued amount	Historical cost basis
	£m	£m
At 31 March 2009	56 1	3 3
Disposal of revalued assets	(0 3)	-
Transfer to profit and loss reserve for additional depreciation incurred	(0 3)	-
Net book amount at 31 March 2010	55.5	3 3
Disposal of revalued assets	(0.3)	-
Transfer to profit and loss for additional depreciation incurred	(0 3)	-
Net book amount at 31 March 2011	**54.9**	**3.3**

14. Investments

	Share of net assets in associated undertakings	Loans to associated undertakings	Total investments in associated undertakings	Share of net assets in joint ventures	Loans (from)/ to joint ventures	Total investments in joint ventures
	£m	£m	£m	£m	£m	£m
Cost and share of post acquisition retained losses						
At 31 March 2009	(0 4)	2 4	2 0	0 8	22 0	22 8
Share of sustained loss for the year	(3 7)	-	(3 7)	(0 3)	-	(0 3)
Movement in the year	-	0 6	0 6	-	(23 2)	(23 2)
Additional investment	-	-	-	0 5	-	0 5
Other equity movements	-	-	-	0 3	-	0 3
At 31 March 2010	(4 1)	3 0	(1 1)	1 3	(1 2)	0 1
Share of sustained loss for the year	(0 8)	-	(0 8)	-	-	-
Movement in the year	-	1 7	1 7	-	(0 1)	(0 1)
At 31 March 2011	**(4 9)**	**4.7**	**(0.2)**	**1.3**	**(1.3)**	**-**

The other equity movements on investments relate to the purchase of the remaining 50% of certain associates, which were subsequently classified as subsidiaries (Note 11)

Of the share of net assets in the table above of (£3 6m) (2010: (£2 8m)), the share of losses relating to certain associated undertakings of (£6 3m) (2010: (£5 5m)) is held as a provision in line with IAS27. The remaining £2 7m is shown as an investment.

Notes to the financial statements (continued)

for the year ended 31 March 2011

The aggregate amounts of net assets, revenue and operatıng loss relatıng to associates are.

	2011 £m	2010 £m
Non-current assets	**4.3**	4 4
Current assets	**4.4**	6 2
Share of gross assets	**8.7**	10 6
Current lıabılıtıes	**(13.6)**	(14 7)
Share of lıabilities	**(13.6)**	(14 7)
Share of net lıabilitıes	**(4.9)**	(4 1)
Operating loss	**(0.5)**	(3 4)
Fınance costs	**(0.3)**	(0 3)
Loss before tax	**(0.8)**	(3 7)
Tax credıt	**-**	-
Sustained loss	**(0.8)**	(3 7)

The aggregate amounts of net assets and net profıt relatıng to joınt ventures are:

	2011 £m	2010 £m
Non-current assets	**32.8**	34 0
Current assets	**7.9**	7 2
Share of gross assets	**40.7**	41 2
Current lıabılıtıes	**(2.5)**	(4 7)
Non-current lıabılıtıes	**(36.9)**	(35 2)
Share of liabilıties	**(39.4)**	(39 9)
Share of net assets	**1.3**	1 3
Revenue	**9.7**	30 1
Operatıng costs	**(5.8)**	(24 5)
Operatıng profit	**3.9**	5 6
Fınance costs	**(2.5)**	(4 2)
Profit before tax	**1.4**	1 4
Tax credıt	**(0 4)**	(0 4)
Net profit	**1.0**	1 0
Dıvıdends paıd	**(1.0)**	(1 3)
Sustained loss	**-**	(0 3)

15. Inventories

	2011 £m	2010 £m
Raw materıals and consumables	**1.6**	5 5

16. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**102.7**	113 0
Provision for impairment of trade receivables	**(22.7)**	(21 7)
Amounts owed by associated undertakings	**1.3**	8 6
Prepayments and accrued income	**79.6**	66 7
Amounts owed by group companies	**33.5**	18 5
Other receivables	**35.5**	39 1
	229.9	224 2

All receivables are reviewed regularly to assess any associated credit risk There are no significant concentrations of credit risk Any impairment considered necessary has been made to the amounts included above See note 23 for further details of credit risks associated with financial instruments

Trade receivables can be analysed as follows

	2011 £m	2010 £m
Main charges trade receivables:		
Past due but not impaired	**68.1**	68 2
Past due and impaired	**21.3**	20 4
Other trade receivables:		
Past due but not impaired	**11.9**	23 1
Past due and impaired	**1.4**	1 3
	102.7	113 0

The ageing of trade receivables classed as past due but not impaired is as follows

	2011 £m	2010 £m
Main charges trade receivables:		
Less than one year overdue	**47.2**	49 9
Between one and two years overdue	**11.8**	11 1
Between two and three years overdue	**5.1**	4 2
Between three and four years overdue	**2.2**	1 7
More than four years overdue	**1.8**	1.3
Other trade receivables:		
Less than one year overdue	**11.3**	22.3
Between one and two years overdue	**0.5**	0.6
Between two and three years overdue	**0.1**	0 1
More than four years overdue	**-**	0 1
	80.0	91.3

The ageing of trade receivables classed as past due and impaired is as follows

	2011 £m	2010 £m
Main charges trade receivables:		
Less than one year overdue	8 5	9 7
Between one and two years overdue	4.6	4 2
Between two and three years overdue	3.3	2 7
Between three and four years overdue	2.6	2 1
More than four years overdue	2.3	1 8
Other trade receivables:		
Less than one year overdue	1.4	1 2
	22.7	21 7

The movement in the provision for impairment of trade receivables is as follows

	2011 £m	2010 £m
Provision brought forward	21 7	18 2
On acquisition of subsidiary	-	0 8
Provision for impairment	16.2	14 4
Amounts written off	(15.2)	(11 7)
Provision at 31 March 2011	22.7	21 7

In all cases, the fair value of trade and other receivables is considered to be the carrying value as stated above

17. Financing

(i) Cash and short-term deposits

	2011 £m	2010 £m
Cash at bank and in hand	67.2	26 9
Short-term deposits	41.4	222 0
	108.6	248 9

At 31 March 2011, the Group had available £779.0m (2010 £740 0m) of undrawn committed borrowing facilities.

(ii) Borrowings

Short-term borrowings·	**2011 £m**	2010 £m
Bank loans	**115.9**	27 1
3 0544% guaranteed bonds 2010	-	94 5
6 875% guaranteed bonds 2010	-	79 3
Other loans	**4.3**	4 8
Loan notes	**26 5**	0 2
Fınance leases	**17.5**	12 5
	164.2	218 4

Long term borrowıngs:	**2011 £m**	2010 £m
Bank loans	**259.1**	304 0
6 000% guaranteed bonds 2019	**272.6**	272 3
6 5876% guaranteed bonds 2023	**197.0**	197 0
5 375% guaranteed bonds 2023	**3.7**	3 5
5 500% guaranteed bonds 2027	**6.2**	6 1
6 454% guaranteed bonds 2027	**124.6**	124 6
6 6011% guaranteed bonds 2031	**262.9**	262 9
6 625% guaranteed bonds 2031	**0.6**	0 6
3 048% ındex lınked guaranteed bonds 2033	**(1.2)**	(0 9)
3 3066% ındex lınked guaranteed bonds 2033	**152.2**	146 2
5 500% guaranteed bonds 2037	**181.8**	181 8
6 375% guaranteed bonds 2039	**306.7**	197.6
2 718% ındex lınked guaranteed bonds 2039	**294.7**	180 1
1 8225% ındex lınked guaranteed bonds 2050	**60.1**	56 6
1 462% ındex lınked guaranteed bonds 2051	**100.6**	93 6
1 758% ındex lınked guaranteed bonds 2054	**76.3**	71 7
1 460% ındex lınked guaranteed bonds 2056	**103.2**	96 2
1 709% ındex lınked guaranteed bonds 2058	**87.3**	81 8
6 000% guaranteed bonds 2025	**446.1**	-
Loan notes ıssued by Saltaıre Water Lımıted	-	43.5
Bank loans under Senıor Holdco facılıty	**492.6**	1,040.0
Other loans	**147.2**	125 8
Fınance leases	**347.8**	368.5
Amounts owed to assocıates	**4.6**	-
Amounts owed to parent companıes	**144.1**	314 5
	4,070.8	4,168 0

3.0544% guaranteed bonds 2010 (Exchange bonds)
These bonds were repayed ın one ınstalment on 23 Aprıl 2010. Interest was charged at 3 0544%

6.875% guaranteed bonds 2010 (Stranded bonds)
These bonds were repayed ın one sum on 23 Aprıl 2010 Interest was charged at 6.875%.

6% guaranteed bonds 2019
These bonds are repayable ın one sum on 21 August 2019 Interest ıs charged at 6%

6 5876% guaranteed bonds 2023 (Exchange bonds)
These bonds are repayable ın one sum on 21 February 2023. Interest ıs charged at 6.5876%.

5 375% guaranteed bonds 2023 (Stranded bonds)
These bonds are repayable in one instalment on 21 February 2023 Interest is charged at 5.375%

5 5% guaranteed bonds 2027 (Stranded bonds)
These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5 5%

6 454% guaranteed bonds 2027 (Exchange bonds)
These bonds are repayable in one sum on 28 May 2027 Interest is charged at 6 454%

6 6011% guaranteed bonds 2031 (Exchange bonds)
These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6.6011%.

6 625% guaranteed bonds 2031 (Stranded bonds)
These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6.625%.

3 048% index linked guaranteed bonds 2033 (Stranded bonds)
These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.048% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

3 3066% index linked guaranteed bonds 2033 (Exchange bonds)
These bonds are repayable in one instalment on 29 July 2033 The interest is charged at 3 3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

5 5% guaranteed bonds 2037
These bonds are repayable in one instalment on 28 May 2037 The interest is paid at 5 5%.

6 375% guaranteed bonds 2039
These bonds are repayable in one sum on 19 August 2039 The interest is charged at 6 375%

2 718% index linked guaranteed bonds 2039
These bonds are repayable in one instalment on 30 December 2039 The interest is charged at 2 718% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 8225% index linked guaranteed bonds 2050
These bonds are repayable in one instalment on 1 February 2050. The interest is charged at 1 8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 462% index linked guaranteed bonds 2051
These bonds are repayable in one instalment on 1 August 2051. The interest is paid at 1 462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.758% index linked guaranteed bonds 2054
These bonds are repayable in one instalment on 1 February 2054 The interest is charged at 1 75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 46% index linked guaranteed bonds 2056
These bonds are repayable in one instalment on 1 August 2056. The interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

1 709% index linked guaranteed bonds 2058
These bonds are repayable in one instalment on 1 February 2058. The interest is charged at 1 7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

6% index linked guaranteed bonds 2025
These bonds are repayable in one instalment on 24 April 2025, however, from 24 April 2017 they become callable and carry a step up coupon Interest is charged at 6%

The Group has an early repayment option on all of the above bonds, subject to the agreement of the issuer

Bank loans
Short and long term bank loans are held in sterling and bear interest at normal commercial rates The weighted average interest rates associated with the bank loans were 3 679% (2010· 3.268%)

Amounts owed to parent companies
These loans are repayable on demand Interest is charged at LIBOR +2 0% margin. The interest is rolled up into the principal in August and February

(iii) Finance leases

Amounts payable under finance leases	**Minimum lease payments 2011 £m**	Minimum lease payments 2010 £m
No later than 1 year	**33.9**	35 7
Later than 1 year and no later than 5 years	**192.3**	185 1
Later than 5 years	**387.8**	453 4
	614.0	674 2
Less future finance charges	**(248.7)**	(293 2)
Present value of lease obligations	**365.3**	381 0
Amount due for settlement within 12 months	**17.5**	12 5
Amount due for settlement after 12 months	**347.8**	368 5
	365.3	381 0

All lease obligations are denominated in sterling

The weighted average lease term is 14.7 years (2010: 15.5 years) For the year ended 31 March 2011 the average effective borrowing rate was 1.7% (2010 1 9%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

18. Trade and other payables

Amounts falling due within one year:	2011 £m	2010 £m
Trade payables	**56.5**	63 9
Capital payables	**104.7**	38 8
Deferred grants and contributions on depreciated property, plant and equipment	**-**	3 0
Social security and payroll deductions	**2.5**	2 8
Receipts in advance	**50.7**	53 8
Amounts owed to group companies	**20.7**	1 1
Other payables	**213.9**	171 6
	449.0	335 0

Amounts falling due after more than one year:		
Deferred grants and contributions on depreciated property, plant and equipment	**76.9**	73 4
Other payables	**70.8**	69 8
	147.7	143 2

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value

19. Provisions

	£m
At 31 March 2009	0 5
Provision created in relation to losses sustained in associated undertakings	5 8
Utilised in year	(0 2)
At 31 March 2010	6 1
Provision created in relation to losses sustained in associated undertakings	0 8
Transferred from discontinued operations	10 7
Provision created in relation to an onerous contract (note 5)	7 3
Utilised in year	(0 1)
At 31 March 2011	**24.8**

Provisions include £18.0m in relation to expected losses from the contract to provide sewerage services to the City of Bridgeport in Connecticut, US which is due to terminate in 2013 The provision will be utilised as the contract terminates

In addition provisions includes £6 3m in relation to losses relating to certain associated undertakings (note 14).

20. Deferred tax

	Accelerated capital allowances	Fair value adjustment of infrastructure assets	Revaluation reserve	Roll-over relief	Financial instruments	Pension obligations	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2009	825 3	32 1	-	1 0	(128 0)	(8 1)	722 3
On acquisition of subsidiaries	4 7	-	-	-	-	-	4 7
(Credit)/charge to income statement	(7 5)	3 0	-	-	(106 9)	1 4	(110 0)
Charge to revaluation reserve	-	-	14 7	-	-	-	14 7
Credit to equity	-	-	-	-	1 7	(10 4)	(8 7)
At 31 March 2010	822 5	35 1	14 7	1 0	(233 2)	(17 1)	623 0
(Credit)/charge to income statement	(71 2)	2 3	-	(0 1)	30 7	7 5	(30 8)
Charge to revaluation reserve	-	-	(1 4)	-	-	-	(1 4)
Credit to equity	-	-	-	-	(1 2)	(1 5)	(2 7)
At 31 March 2011	**751.3**	**37.4**	**13.3**	**0.9**	**(203.7)**	**(11.1)**	**588.1**

The Group has unrecognised capital losses of £12 8m (2010: £12 8m) which are available indefinitely against future eligible capital profits of the Group

No deferred tax asset has been recognised on capital losses as their utilisation is not currently foreseen

21. Pensions

(i) Description of schemes

The Group sponsors a UK pension scheme, called the Kelda Group Pension Plan (KGPP) This scheme was previously sponsored by Kelda Group plc before its acquisition by Saltaire Water Limited The KGPP has a number of benefit categories providing benefits on a defined benefit basis and a defined contribution basis

Contributions over the year ended 31 March 2011 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The majority of members now pay contributions through a salary sacrifice arrangement with effect from 1 October 2008. The Group contributed at 475% of members' contributions up to 30 September 2008 and 22 2% of pensionable pay thereafter in respect of the majority of members The Group also paid lump sum deficit contributions of £0 9m per month in the year to 31 March 2011. An additional contribution of £0 9m was paid in October 2010 (2010 £4.9m)

An accrual for unfunded benefits of £4 9m has been included in the Group's financial statements at 31 March 2011 (2010 £4 4m)

(ii) Major assumptions

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Limited, on the basis of annual valuations using the projected unit credit method

	2011	2010
	%	%
Inflation	**3.4**	3 5
Rate of increase in salaries	**4.4**	4 5
Rate of increase to pensions in payment and deferred pensions	**3.4**	3 5
Discount rate for scheme liabilities	**5.5**	5 6
Life expectancy for a male pensioner aged 60 (in years)	**26.4**	24 9
Projected life expectancy at age 60 for male aged 40 (in years)	**28.4**	26 0

(iii) Scheme assets and liabilities

Scheme assets are stated at their bid values at the respective balance sheet dates.

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

	2011	
	Market value	**Expected long term rate of return**
	£m	**%**
Fair value of scheme assets		
Equities	**541.7**	**7.16**
Bonds	**251.0**	**4.94**
Property	**76.9**	**7.16**
Other	**5.3**	**4.41**
Total value of assets	**874.9**	
Present value of scheme liabilities	**(914.9)**	
Pension liability	**(40.0)**	

	2010	
	Market value	Expected long term rate of return
	£m	%
Fair value of scheme assets		
Equities	523 1	7 32
Bonds	246 3	5 09
Property	68 1	7 32
Other	4 5	4 57
Total value of assets	842 0	
Present value of scheme liabilities	(909 5)	
Pension liability	(67 5)	

The pension plan has not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group

(iv) Analysis of the amounts included within the financial statements

	2011 £m	2010 £m
Analysis of amount charged to operating costs		
Current service cost	**15.6**	13 5
Past service cost	**1 7**	0 8
Analysis of amount credited to other investment income/finance costs		
Expected return on pension scheme assets	**(55.1)**	(41 2)
Interest on pension scheme liabilities	**49.4**	46 0
Gain on plan curtailments	**(11.0)**	-
Amounts charged to the income statement before taxation	**0.6**	19 1
Analysis of amounts recognised in Group statement of comprehensive income		
Actual return less expected return on pension scheme assets	**3.4**	173 6
Experience gains and losses arising on the scheme's liabilities	**22.5**	-
Changes in assumptions underlying the present value of the scheme's liabilities	**(31.6)**	(210 9)
Actuarial loss recognised in the Group statement of comprehensive income	**(5.7)**	(37 3)

Actuarial gains and losses are recognised as they occur in the Group statement of comprehensive income.

The total contributions to the defined benefit and defined contribution plans in the year ending 31 March 2012 are expected to be £28 7m for the Group

Actuarial gains and losses are recognised directly in the statement of comprehensive income At 31 March 2011, a cumulative pre-tax loss of £56 5m (2010: £55.9m) had been recorded directly in the statement of comprehensive income

(v) Reconciliation of opening and closing retirement benefit liabilities and assets

	2011 £m	2010 £m
Movement in liabilities during the year		
Liabilities at beginning of year	**(909.5)**	(668 5)
Movement in the year		
- plan participants' contributions	**(0.1)**	(0 2)
- current service cost	**(15.6)**	(13 5)
- interest cost	**(49.4)**	(46 0)
- past service cost	**(1.7)**	(0 8)
- benefits paid	**31.1**	31 6
- actuarial loss	**(9.1)**	(210 9)
- plan curtailment	**36.3**	-
Movement in unremitted contributions at the year end	**3.1**	(1 2)
Pension liabilities at year end	**(914.9)**	(909 5)
Movement in assets during the year		
Assets at beginning of year	**842.0**	634 5
Movement in year		
- plan participants' contributions	**0.1**	0 2
- employer contributions	**30.7**	24 1
- other finance income	**55.1**	41 2
- actuarial gain	**3.4**	173 6
- benefits paid	**(31.1)**	(31 6)
- plan curtailment	**(25.3)**	-
Pension assets at year end	**874.9**	842 0

The net amount is presented in the balance sheet under non-current liabilities.

(vi) History of experience gains and losses

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	**874.9**	842 0	634 5	790 6	817 9
Present value of defined benefit obligation	**(914 9)**	(909 5)	(666 6)	(761 7)	(807 7)
Deficit in the scheme	**(40.0)**	(67 5)	(32 1)	28 9	10 2
Experience gains and losses on scheme liabilities	**22.5**	-	5 9	15 3	-
Experience gains and losses on scheme assets	**3.4**	173 6	(200 0)	(76 3)	2 5

IAS 19 requires that the pension schemes are valued using market conditions at the Group's year end. This produces a volatile figure for any surplus or deficit as it is largely dependent on stock market values on one particular date. The Group's pension liabilities are funded on a long term basis (based on the triennial review of KGPP) rather than the IAS 19 disclosures

(vii) Defined contribution scheme

The group ran two defined contribution schemes for its employees These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007 The total charged to the income statement for the defined contribution schemes for the year ended 31 March 2011 was £0 8m (2010: £0.4m)

22. Ordinary shares

	Ordinary shares of 1p		Ordinary shares of £1	
	Number	1p shares £	Number	£1 shares £
Issued and fully paid				
At 31 March 2010 and 31 March 2011	1	0 01	1,473,500,000	1,473,500,000

Employee Share Ownership Trust

Before its acquisition by Saltaire Water Limited, Kelda Group plc ran a "Sharesave" save-as-you-earn share option scheme On acquisition, this was terminated with remaining schemes running until their original completion date

Previously, shares were held in an ESOT, funded by interest free loans from the Group, which held shares to meet these schemes At 31 March 2010 and 2011, the ESOT held no shares in Kelda Group Limited All future schemes will be met by the issue of new shares in Kelda Group Limited, which will then be repurchased by the Group.

Details of the schemes which remain outstanding are given below

Options granted and outstanding at 31 March

	Date of grant	**2011 Number of shares**	2010 Number of shares	Option price	Normal exercise date
Sharesave schemes					
Three year schemes	28 December 2006	-	23,812	741 0p	March to August 2010
Five year schemes	07 January 2005	-	61,780	461 0p	March to August 2010
	30 December 2005	**32,179**	147,232	588 0p	March to August 2011
	28 December 2006	**85,244**	95,177	741 0p	March to August 2012

23. Financial instruments

Treasury policy is described in the financial review on page 10. The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Net debt and financial liabilities comprise the following

	2011 Less than one year £m	**2011 More than one year £m**	**2011 Total £m**	2010 Less than one year £m	2010 More than one year £m	2010 Total £m
Financial liabilities						
Interest rate swaps	**-**	**(10.3)**	**(10.3)**	-	(17 8)	(17 8)
Index linked swaps	**-**	**(827.2)**	**(827.2)**	-	(838 1)	(838 1)
Other swaps	**-**	**(4.7)**	**(4.7)**	-	-	-
	-	**(842.2)**	**(842.2)**	-	(855.9)	(855 9)
Net debt						
Cash and short term deposits	**108.6**	**-**	**108.6**	248 9	-	248 9
Borrowings	**(164.2)**	**(4,070.8)**	**(4,235.0)**	(218 4)	(4,168 0)	(4,386 4)
	(55.6)	**(4,070.8)**	**(4,126.4)**	30 5	(4,168 0)	(4,137 5)

Cash and short term deposits were invested with a range of counterparties, either AAA rated sterling liquidity funds or banks with a rating of at least long term A, short term A1/P1, in accordance with approved investment guidelines

(a) Interest rate risk profile of financial assets and liabilities

The interest rate risk profile of the Group's financial assets and liabilities at 31 March is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Year ended 31 March 2011

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	63 2	58 8	49 6	42 3	41 0	205 3	460 2
6 000% guaranteed bonds 2025	27.0	27 0	27 0	27 0	27 0	478 8	613 8
6 000% guaranteed bonds 2019	16 5	16 5	16 5	16 5	16 5	331 0	413 5
6 588% guaranteed bonds 2023	13 9	13.9	13.9	13 9	13 9	306.4	375 9
5 375% guaranteed bonds 2023	0 4	0 4	0 4	0 4	0 4	9 3	11 3
5 500% guaranteed bonds 2027	0 4	0 4	0 4	0 4	0 4	11 9	13 9
6 454% guaranteed bonds 2027	8.7	8 7	8.7	8 7	8 7	233 0	276 5
6 601% guaranteed bonds 2031	16 8	16 8	16.8	16 8	16 8	508 2	592 2
6 625% guaranteed bonds 2031	-	-	-	-	-	0.4	0 4
5 500% guaranteed bonds 2037	10 3	10 3	10 3	10 3	10 3	416 9	468 4
6 375% guaranteed bonds 2039	19 1	19 1	19.1	19 1	19 1	747.3	842 8
Interest rate swaps	1 7	1 1	0 6	0 3	0 3	2.8	6 8
Finance lease swaps	8 1	2 3	1 3	1 0	1 0	12.8	26 5
	186.1	175 3	164 6	156 7	155 4	3,264.1	4,102 2
Floating rate							
3 048% index linked guaranteed bond 2033	-	-	-	-	-	0 4	0 4
3 307% index linked guaranteed bond 2033	3 9	3 9	3 9	3 9	3 9	199.8	219 3
2 718% index linked guaranteed bond 2039	7.1	7 1	7 1	7 1	7 1	449 2	484 7
1 823% index linked guaranteed bond 2050	1.2	1 2	1.2	1 2	1 2	112 8	118 8
1 462% index linked guaranteed bond 2051	1 8	1 8	1 8	1 8	1 8	208 0	217 0
1 758% index linked guaranteed bonds 2054	1.5	1 5	1.5	1 5	1 5	151 8	159 3
1 460% index linked guaranteed bonds 2056	1.8	1 8	1 8	1 8	1 8	217 0	226 0
1 709% index linked guaranteed bonds 2058	1.7	1 7	1 7	1 7	1 7	183 3	191 8
Loans from parent companies	146.2	-	-	-	-	-	146 2
Loans from associates/joint ventures	4.6	-	-	-	-	-	4.6
Bank loans	2.7	3.2	3 5	3 7	3 5	62.2	78.8
Bank loans under Senior Holdco facility	14.3	506 5	-	-	-	-	520.8
Index linked swaps	23.4	23 4	23 4	23 4	23.4	658 2	775.2
Finance leases	29 7	36 1	44 2	51 6	58.6	310 4	530.6
	239.9	588 2	90 1	97 7	104.5	2,553 1	3,673.5
Financial assets							
Floating rate							
Cash and short term deposits	(108 6)	-	-	-	-	-	(108 6)
Loans to associates/joint ventures	(1 3)	-	-	-	-	-	(3 4)
	(109.9)	-	-	-	-	-	(109 9)

Year ended 31 March 2010

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	44 1	58 3	54 0	45 0	37 9	181 4	420 7
3 054% guaranteed bonds 2010	94 7	-	-	-	-	-	94 7
6 875% guaranteed bonds 2010	79 7	-	-	-	-	-	79 7
6 000% guaranteed bonds 2019	16 5	16 5	16 5	16 5	16 5	347 5	430 0
6 588% guaranteed bonds 2023	13 9	13 9	13 9	13 9	13 9	320 2	389 7
5 375% guaranteed bonds 2023	0 4	0 4	0 4	0 4	0 4	9 4	11 4
5 500% guaranteed bonds 2027	0 4	0 4	0 4	0 4	0 4	12 4	14 4
6 454% guaranteed bonds 2027	8 7	8 7	8 7	8 7	8 7	242 0	285 5
6 601% guaranteed bonds 2031	16 8	16 8	16 8	16 8	16 8	525 2	609 2
6 625% guaranteed bonds 2031	-	-	-	-	-	0 4	0 4
5 500% guaranteed bonds 2037	10 3	10 3	10 3	10 3	10 3	426 9	478 4
6 375% guaranteed bonds 2039	12 8	12 8	12 8	12 8	12 8	510 7	574 7
Other loans	12 7	12 0	11 6	11 2	11 0	170 5	229 0
Finance lease swaps	10 5	7 4	1 6	0 7	0 7	11 7	32 6
	321 5	157 5	147 0	136 7	129 4	2,758 3	3,650 4
Floating rate							
3 048% index linked guaranteed bond 2033	-	-	-	-	-	(0 2)	(0 2)
3 307% index linked guaranteed bond 2033	3 0	3 0	3 0	3 0	3 0	157 5	172 5
2 718% index linked guaranteed bond 2039	4 8	4 8	4 8	4 8	4 8	292 5	316 5
1 823% index linked guaranteed bond 2050	1 2	1 2	1 2	1 2	1 2	110 4	116 4
1 462% index linked guaranteed bond 2051	1 8	1 8	1 8	1 8	1 8	203 0	212 0
1 758% index linked guaranteed bonds 2054	1 5	1 5	1 5	1 5	1 5	148 6	156 1
1 460% index linked guaranteed bonds 2056	1 8	1 8	1 8	1 8	1 8	212 0	221 0
1 709% index linked guaranteed bonds 2058	1 7	1 7	1 7	1 7	1 7	179 7	188 2
Bank loans under Senior Holdco facility	16 7	1,063 7	-	-	-	-	1,080 4
Index linked swaps	27 1	27 1	27 1	27 1	27 1	786 3	921 8
Finance leases	25 9	29 5	38 0	45 2	50 5	326 0	515 1
	85 5	1,136 1	80 9	88 1	93 4	2,415 8	3,899 8
Financial assets							
Floating rate							
Cash and short term deposits	(248 9)	-	-	-	-	-	(248 9)
Loans to associates/joint ventures	(1 8)	-	-	-	-	-	(1 8)
	(250 7)	-	-	-	-	-	(250 7)

(b) Financial risks

Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide benefits to stakeholders and returns to shareholders and to maintain an optimal capital structure In order to do this, the Group will consider the amount of debt and assets held and their liquidity.

When monitoring capital risk, the Group considers its gearing and the ratio of net debt to RCV.

Centrally managed funds are invested entirely with counterparties whose credit rating is 'A-' or better

Maximum exposure relating to financial assets is represented by carrying value as at the balance sheet date

Credit risk
The Group has some exposure to credit risk through the holding of receivables on the year end balance sheet These can be split into main charges receivables and other trade receivables.

Risks associated with main charges debtors include limits on the Group's ability to restrict supply However, this does not apply to all debtors The credit risk is mitigated by introducing payment plans, providing advice and support to customers where this is viable and where it is considered necessary, using legal procedures to reclaim outstanding debts

Risks associated with other trade receivables are mitigated by credit checks performed on customers before they are supplied, the cessation of supply to customers who are a high credit risk and payment in advance where this is deemed necessary.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment

The Group's objective is to minimise the risk by minimising the amount of overdue debt at any time The Group manages the risk by timely review of the ageing profile and employing specific staff to monitor and collect these debts The risk is measured by monitoring of overdue receivables

In respect of credit risk arising from the other financial assets of the Group, which comprise cash, investments in the equity of other companies such as joint ventures and other receivables and financial assets in relation to concession arrangements, the Group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

Liquidity risk
Liquidity risk is the risk that the group will not have the level of liquid funding available to meet its requirements Maintaining an inadequate amount of liquidity and being unable to access the debt markets when required exposes the group to the risk of being unable to finance its functions, whilst maintaining excess liquidity potentially exposes the group to the risk of inefficient funding costs.

The group looks to manage its liquidity by ensuring debt is held with a range of durations and the maturity profile is actively managed by the group's treasury function. Existing bank covenants require the group to keep a combination of available cash and banking facilities sufficient to cover anticipated capital expenditure, operating costs and interest costs for the succeeding 12 months This is a rolling requirement The group extend the requirement to cover all other future outgoings Further facilities are not expected to be required within the next year to comply with the above policy

At 31 March 2011 the group had £578 1m of available liquidity (2010 £618 6m) which comprised £63 1m available cash and short term deposits (2010: £108 6m) and £515 0m of undrawn committed borrowing facilities (2010 £510 0m)

The maturity profile on page 73 represents the forecast future contractual principal and interest cashflows in relation to the group's financial liabilities and derivatives on an undiscounted basis There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

Market Risk
Market risk is the risk that movements in market conditions, including inflation and interest rates will impact materially on the group financial performance. The group's exposure to market risks primarily results from its financial arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

The group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates The group's floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates The group uses interest rate swap contracts to hedge these exposures where appropriate.

The sensitivity of the group's interest and borrowings to the above risks can be summarised as follows

Impact on profit before tax	**2011 £m**	2010 £m
1% increase in RPI leading to a reduction in profit	**(15.5)**	(22.7)
1% decrease in RPI leading to an increase in profit	**15.5**	22.7
1% increase in LIBOR leading to an increase in profit	**8.1**	2.2
1% decrease in LIBOR leading to a decrease in profit	**(8.1)**	(2.2)

(c) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the book values and the fair values of the Group's financial assets and liabilities, including those classified under discontinued operations, at 31 March.

Notes to the financial statements (continued)

for the year ended 31 March 2011

	2011 Book value £m	2011 Fair value £m	2010 Book value £m	2010 Fair value £m
Primary financial instruments financing the Group's operations				
Financial assets				
Cash and short term deposits	(108.6)	(108.6)	(248 9)	(248 9)
Financial assets from concession arrangements	(157.8)	(157.8)	-	-
Loans to associates/joint ventures	(1.3)	(3.4)	(1 8)	(1 8)
Financial liabilities				
Fixed rate interest rate swaps in respect of finance leases	10.3	10.3	17 8	17.8
Other swaps	4.7	4.7	-	-
Interest rate swaps in respect of borrowings	867.2	867.2	829 8	829 8
Fixed rate bank loans	375.0	400.7	331 1	359 6
Fixed rate sterling bonds	1,802.2	2,005.6	1,420 2	1,620 1
Index Linked sterling bonds	873.2	874.9	725 3	832 3
Bank loans under Senior Holdco facility	492.6	492.6	1,040 0	1,040 0
Finance leases	365.3	365.3	381 0	381 0
Loans from associates/joint ventures	4.6	4.6	-	-
Other loans	138.0	138.0	126 0	126 0

The fair values for all financial instruments have been calculated either by discounting the expected future cash flows at interest rates prevailing for a comparable maturity period for each instrument or by reference to market values for similar instruments.

All fair value measurements are therefore categorised as classified as level 1 under IFRS7 'Financial Instruments - Disclosures' as they are based upon quoted prices in active markets for similar instruments There have been no transfers between levels within the fair value hierarchy within the year.

Movements in the fair value of interest rate swaps in respect of borrowings of £12 4m were recognised in the income statement (2010 £421 3m) Movements in the fair value of fixed rate swaps in respect of borrowings and finance leases of £3 2m were recognised in the income statement (2010 £6 2m in the statement of comprehensive income) All interest rate swaps have maturity dates in excess of five years

Some interest rate swaps in respect of borrowings have break dates at which time both parties have an option to repay the swap. An analysis by break date is as follows.

Break date	**2011 £m**
Less than 1 year	70.4
1 to 2 years	-
2 to 3 years	63.4
3 to 4 years	-
4 to 5 years	-
Over 5 years	748.5
	882.3

(d) Hedges

The Group's policy is to hedge interest rate risk within approved board policies and guidelines.

Interest rate swaps are used to manage interest rate exposure under a policy that requires at least 85% of Yorkshire Water and Kelda Holdco Limited net debt to be fixed or index linked. At the financial year end the proportions were 129% and 115% respectively (2010 141% and 109%).

Hedging of floating rate interest due on borrowings

The Group has a number of borrowing facilities with a number of counterparties on which interest is linked to LIBOR It is therefore exposed to changes in LIBOR which could have a material effect on interest costs from year to year and over time

In order to manage its exposure to movements in LIBOR, the Group has entered into a number of floating rate to index linked swaps and also a floating interest rate to fixed interest rate swap

The nominal value of index linked swaps total £1,289m and have an average life of 38 years The nominal value of the floating interest rate to fixed interest rate swap is £54 7m with a remaining life of 19 years

The hedging instruments are not a perfect cash flow hedge against changes in LIBOR as the dates and amounts of the swaps vary in some cases to the borrowings which they hedge.

The fair value of the indexed linked hedging instruments at 31 March 2011 was a loss of £867 2m (2010· £854 8m loss) The fair value movement in the year has been recognised in the income statement as an exceptional item

The fair value of the floating interest rate to fixed interest rate swap instrument was a loss of £4 7m (2010 nil) The fair value movement in the year has been charged directly to reserves as hedging criteria were met

Hedging of interest due under finance leases

Yorkshire Water has a number of finance leases with a number of counterparties lasting from inception for periods up to 32 years. In most cases interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. Yorkshire Water is therefore exposed to changes in 12 month LIBOR which could have a material effect on interest costs from year to year and over time £63.2m of leases are reset semi-annually based on 6 month LIBOR.

In order to fix the interest cost on a proportion of its net debt, Yorkshire Water has entered into a number of floating to fixed interest rate swaps.

The hedging instrument no longer meets the criteria to classify for hedge accounting. The fair value of the hedging instrument at 31 March 2011 was a £10.3m loss (2010. £17 8m loss).

The cash flow hedge was assessed to be ineffective at 31 March 2011 and £5.9m relating to the hedging instrument was included in the income statement (net of deferred tax). In the prior year a £4 2m unrealised loss was included within the statement of comprehensive income as hedging criteria were met.

24. Share based payments

Share options

Previously, the Group operated a savings related share option scheme under which options were granted to employees The scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity with members having the option to continue contributing For any member who has taken that option, charges to the income statement will continue until the maturity of the scheme For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme

The employee share option plans were open to all qualifying employees and provided for an exercise price equal to the daily average market price on the date of grant less 20%. The options previously vested if the employee remains in service for the full duration of the option scheme (either three or five years), but the choice to vest on takeover was available to all option holders

	2011		2010	
	Options	**Weighted average exercise price £**	Options	Weighted average exercise price £
Outstanding at the beginning of the year	**327,981**	**6.20**	632,497	6 86
Lapsed during the year	**(11,057)**	**6.62**	(8,598)	7 04
Exercised during the year	**(199,501)**	**5.71**	(295,918)	5 58
Outstanding at the end of the year	**117,423**	**6.99**	327,981	6 20
Of which exercisable at the end of the year	**32,179**	**5.88**	84,486	5 38

The weighted average share price at the date of exercise for share options exercised during the year was £10 90 (2010 £10 90)

The options outstanding at 31 March 2011 had a weighted average exercise price of £6 99 (2010 £6.20), and a weighted average remaining contractual life of 1 0 years (2010: 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. There were no shares granted in 2011 or 2010. The inputs into the Black Scholes model for 2007 were as follows

	2007
Share price at date of grant	926p
Exercise price	741p
Expected volatility	25%
Expected life	3 and 5 years
Risk free rate	5 08%
Expected dividends	31p

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

25. Additional cash flow information

Analysis of movement in net debt

	At 31 March 2009 £m	On acquisition of subsidiary £m	Non cash movements	Cash movements £m	At 31 March 2010 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2011 £m**
Cash and cash equivalents	137 6	11 7	-	99 6	248 9	-	**(140.3)**	**108.6**
Debt due within one year	(25 6)	(4 8)	-	(175 5)	(205 9)	-	**59.2**	**(146.7)**
Finance leases due within one year	(6 0)	-	-	(6 5)	(12 5)	-	**(5.0)**	**(17.5)**
	(31 6)	(4 8)	-	(182 0)	(218 4)	-	**54.2**	**(164.2)**
Debt due after one year	(3,764 4)	(126 3)	(35 1)	126 3	(3,799 5)	**(74.7)**	**151.2**	**(3,723 0)**
Finance leases due after one year	(389 6)	-	-	21 1	(368 5)	-	**20.7**	**(347.8)**
	(4,154 0)	(126 3)	(35 1)	147 4	(4,168 0)	**(74 7)**	**171.9**	**(4,070.8)**
Net debt relating to continuing activities	(4,048 0)	(119 4)	(35 1)	65 0	(4,137.5)	**(74.7)**	**85.8**	**(4,126.4)**
Total net debt	(4,048 0)	(119 4)	(35 1)	65 0	(4,137 5)	**(74.7)**	**85.8**	**(4,126.4)**

Net debt does not include financial liabilities which are not considered to be part of the Group's borrowings

Cash generated by continuing operations as noted in the Group cashflow statement can be derived as follows·

	2011 £m	2010 £m
Loss from continuing operations before taxation	**59.8**	(261 0)
Share of associates' and joint ventures' profit after tax	**(0.2)**	2 7
Investment income	**(72.7)**	(88 5)
Finance costs	**379.3**	311 5
Exceptional finance costs (non-cash)	**(18.4)**	423 8
Depreciation	**209.0**	199 0
Decrease/(Increase) in inventories	**4.0**	(0 5)
Decrease/(Increase) in trade and other receivables	**4.7**	(20 9)
(Decrease)/increase in trade and other payables	**(24.7)**	3 7
Pension contributions in excess of operating costs	**(24.4)**	(5 0)
Movements in provisions	**10.5**	0 9
Other movements	**(1 9)**	0 2
Cash generated by continuing operations	**525.0**	565 9

26. Commitments

	2011 £m	2010 £m
Contracts placed at 31 March	**343.8**	105 5

The long term investment programme for the UK regulated water services business, which identified substantial future capital expenditure commitments in the period 1 April 2010 to 31 March 2015, was agreed as part of the Periodic Review process which was finalised in November 2009.

At 31 March, Group companies were committed to making the following payments under non cancellable operating leases as set out below

The Group has entered into commercial leases on certain property, motor vehicles and items of machinery These leases have an average duration of between 3 and 10 years. There are no restrictions placed on the Group by entering into the leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2011 Land and buildings £m	**2011 Other £m**	2010 Land and buildings £m	2010 Other £m
No later than 1 year	**0.2**	**1.9**	0 8	2.5
Later than 1 year and no later than 5 years	**4.2**	**3.6**	1 9	0.6
Later than 5 years	**4.2**	**-**	2 0	0.3
	8.6	**5.5**	4 7	3.4

27. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders These loans are included in investments analysed in note 14

	Sales to related parties 2011 £m	**Loans to/(from) related parties 2011 £m**	Sales to related parties 2010 £m	Loans to/(from) related parties 2010 £m
Joint ventures				
Aberdeen Environmental Services (Holdings) Limited	5.4	(3.3)	5 8	(1 2)
Kelda Water Services (Estates) Limited	-	-	3 6	-
Associates				
KeyLandmark Limited	-	(0.4)	-	(0 4)
Micklefield	-	0.1	-	0 1
Whitehall Landing Limited	-	(0.3)	-	(0 3)
Whinmoor Limited	-	0.2	-	0 2
Templegate	-	0.3	-	0 3
KeyLand Gregory Limited	-	0.8	-	1 2
KeyLand Gregory (Retail) Limited	-	-	-	1 5
Aire Valley Land LLP	-	4 0	-	0 4
	5.4	3 4	9 4	1 8

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £nil (2010. £1 5m) All outstanding balances are unsecured Sales and purchases between related parties are made at normal market prices During the year ended 31 March 2011 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2010 £nil)

There were no other material transactions between the Group and its associated undertakings and joint ventures during the year

Compensation of key management personnel (including directors)

	2011 £m	2010 £m
Short-term benefits	2.6	3.7
Post-employment benefits	0.3	0.4
Termination payments	0.3	0.4
Share-based payments	-	0.1
	3.2	4.6

28. Prior year adjustments

The group has adopted IFRIC 18 'Transfer of Assets from Customers' (see accounting policies). The impact on the March 2010 comparatives on the adoption of this new interpretation is set out below

	2010 As previously reported £m	Restatement for IFRIC 18 £m	2010 Restated £m
Non-current assets			
Intangible assets	1,812 8	-	1,812 8
Financial assets	-	-	-
Property, plant and equipment	5,038 3	26 2	5,064 5
Investments in associated undertakings and joint ventures	2 7	-	2 7
Loans to associated undertakings and joint ventures	1 8	-	1 8
	6,855 6	26 2	6,881 8
Current assets			
Inventories	5 5	-	5 5
Trade and other receivables	224 2	-	224 2
Cash and cash equivalents	26 9	-	26 9
Short term deposits	222 0	-	222 0
Assets included in disposal groups held for sale	9 0	-	9 0
	487 6	-	487 6
Total assets	7,343 2	-	7,369 4
Current liabilities			
Trade and other payables	(308 8)	(26 2)	(335 0)
Tax liabilities	(42 1)	-	(42 1)
Short-term borrowings	(218 4)	-	(218 4)
Liabilities included in disposal groups held for sale	(18 1)	-	(18 1)
	(587 4)	(26 2)	(613 6)
Non-current liabilities			
Long-term borrowings	(4,168 0)	-	(4,168 0)
Long-term payables	(69 8)	-	(69 8)
Financial liabilities	(855 9)	-	(855 9)
Deferred grants and contributions on depreciated assets	(73 4)	-	(73 4)
Retirement benefits deficit	(67 5)	-	(67 5)
Provisions	(6 1)	-	(6 1)
Deferred tax liabilities	(623 0)	-	(623 0)
	(5,863 7)	-	(5,863 7)
Total liabilities	(6,451 1)	-	(6,477 3)
Net assets	892 1	-	892 1
Issued share capital	1,473 5	-	1,473 5
Hedging reserve	(13 2)	-	(13 2)
Revaluation reserve	37 5	-	37 5
Share-based payment reserve	5 1	-	5 1
Retained earnings - deficit	(610 8)	-	(610 8)
Total equity attributable to equity holders of the parent	892 1	-	892 1

29. Ultimate controlling party

The company's immediate parent company is Kelda Junior Holdco Limited The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey

Kelda Eurobond Co Limited, a company registered in England and Wales, is the largest UK Group to consolidate these financial statements. Kelda Holdco Limited is the smallest UK group to consolidate these financial statements.

Copies of the consolidated financial statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ

Group companies

as at 31 March 2011

Principal subsidiary companies	Country of incorporation	Class of shares in issue	Proportion of class of share held
Water services			
Yorkshire Water Services Limited	England & Wales	Ordinary	100%
Dalnada Water Services Limited	Northern Ireland	Ordinary	100%
Grampian Wastewater Services Limited	Scotland	Ordinary	100%
Kelda Water Services (Defence) Limited	England & Wales	Ordinary	100%
Kelda Water Services (Estates) Limited	England & Wales	Ordinary	100%
Kelda Water Services Limited	England & Wales	Ordinary	100%
Kelda Water Services (Wales) Limited	England & Wales	Ordinary	100%
Other activities			
KeyLand Developments Limited	England & Wales	Ordinary	100%
KeyLand Investment Properties Limited	England & Wales	Ordinary	100%
Loop Customer Management Limited	England & Wales	Ordinary	100%
Holding and finance companies			
Kelda Group Limited	England & Wales	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	Ordinary	100%
Yorkshire Water Services Odsal Finance Limited	England & Wales	Ordinary	100%
Yorkshire Water Services Bradford Finance Limited	England & Wales	Ordinary	100%

Principal associated undertakings and joint ventures	Country of incorporation	Class of shares in issue	Proportion of class of share held
Aberdeen Environmental Services (Holdings) Limited	Scotland	Ordinary 'A'	Nil
	Scotland	Ordinary 'B'	100%
	Scotland	Ordinary 'C'	Nil

Company balance sheet

as at 31 March 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Investments	3	**3,250.9**	3,252 6
Current assets			
Debtors	4	**9.1**	11 6
Cash at bank and in hand		**33.5**	57 6
		42.6	69 2
Creditors: amounts falling due within one year			
Other creditors	5	**(48.9)**	(8 5)
Net current liabilities		**(6.3)**	60 7
Total assets less current liabilities		**3,244.6**	3,313 3
Creditors: amounts falling due after more than one year			
Creditors	5	**(1,137.6)**	(633 2)
Long term borrowings	6	**(492.6)**	(1,040 0)
Net assets		**1,614.4**	1,640 1
Capital and reserves			
Called up share capital	7	**1,473.5**	1,473 5
Profit and loss reserve account	7	**140.9**	166 6
Total shareholders' funds		**1,614.4**	1,640 1

The financial statements on pages 85 to 90 were approved by the board of directors on 15 July 2011 and signed on their behalf by

Liz Barber
Director
Kelda Holdco Limited

Registered Number 06433799

1. Company accounting policies

Basis of accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with all applicable United Kingdom accounting standards and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006

The going concern basis has been applied in these financial statements

Taxation

Current tax

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset

Deferred tax

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

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 irrecoverable amounts There is no intention to trade the debtors. Trade creditors are not interest bearing and are stated at their nominal value.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Derivative financial instruments
The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability and unrecognised firm commitments; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges to hedge highly probable forecasted transactions which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged highly probably forecasted transaction results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year

The directors have taken advantage of the exemption in FRS25 and have excluded disclosures relating to financial instruments from the financial statements on the basis that the financial instruments of the Company are included within the consolidated financial statements of the Group

Pensions
The Company's employees participate in a number of Group defined benefit schemes as described in note 21 in the consolidated financial statements. The Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes Details of the defined benefit schemes of the Group (accounted for in accordance with the Group's accounting policies) can be found in note 21 of the consolidated financial statements

Dividends receivable
Dividends receivable are recognised when the shareholders' right to receive the revenue is established

Dividends payable

Interim dividends payable are recognised on payment of the dividend. Final dividends payable are recognised on approval by shareholders in the annual general meeting

Share capital

Ordinary shares are classified as equity

2. Profit attributable to the parent company

The result of the parent company was a loss of £25 7m (2010 £170.8m profit) Advantage has been taken of the exemption available under section 408 of the Companies' Act 2006 not to present a profit and loss account for the company alone. The parent company profit and loss account was approved by the board on 15 July 2011

3. Investments

	Shares in group undertakings £m	Loans to group undertakings £m	Total investments in group undertakings £m
Cost			
At 31 March 2009	3,063 6	216 2	3,279 8
On acquisition of subsidiaries	0 8	(28 0)	(27 2)
At 31 March 2010	3,064 4	188 2	3,252 6
Repayment of loans	-	(1 7)	(1 7)
At 31 March 2011	**3,064.4**	**186.5**	**3,250.9**

A list of the major subsidiaries of the Company can be found on page 84

4. Debtors

	2011 £m	2010 £m
Corporation tax	**-**	11 1
Amounts owed by subsidiary undertakings	**9.1**	0 5
	9.1	11 6

Notes to the company financial statements *(continued)*

For the year ended 31 March 2011

5. Creditors

	2011 £m	2010 £m
Amounts falling due within one year:		
Amounts owed to group undertakings	**20.1**	3 8
Other creditors	**28.8**	4 7
	48.9	8 5
Amounts falling due after one year:		
Amounts owed to group undertakings	**1,137.6**	591 0
Other creditors	-	42 2
	1,137.6	633 2

Amounts owed to group undertakings include £928 8m owed to Yorkshire Water and £137 8m owed to parent companies. These loans are repayable on demand Interest is charged at LIBOR +2 0% margin

6. Long term borrowings

£492 6m (2010: £1,040 0m) relates to external bank loans under the Senior Holdco Facility Agreement (SHFA) See page 61 for disclosure in consolidated financial statements Weighted average interest rates associated with the loans are 2.868% These loans are repayable November 2012

7. Reconciliation of movements in shareholder's funds

	Called up share capital £m	Profit and loss reserve £m	Shareholder's funds £m
Shareholder's funds at 31 March 2009	1,473 5	(4.2)	1,469 3
Profit for the financial year	-	170 8	170 8
Shareholder's funds at 31 March 2010	1,473 5	166 6	1,640 1
Loss for the financial year	-	(25 7)	(25 7)
Shareholder's funds at 31 March 2011	**1,473 5**	**140.9**	**1,614.4**

8. Other information

The company had no employees at 31 March 2011 (2010: none)

Details of directors' emoluments are set out in the directors' emoluments note on page 49. No elements related specifically to their work in the company

Disclosure notes relating to share capital, auditors' remuneration and financial instruments are included within the financial statements of the Group.

The company has taken advantage of the exemption granted by paragraph 3c of FRS8 "Related party disclosures", not to disclose transactions with other Group companies.

Auditor's remuneration has been borne by Kelda Group Limited

9. Ultimate controlling party

The company's immediate parent company is Kelda Junior Holdco Limited The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey

Kelda Eurobond Co Limited, a company registered in England and Wales, is the largest UK Group to consolidate these financial statements These are the smallest UK group to consolidate these financial statements.

Independent Auditors' Report to the members of Kelda Holdco Limited for the company accounts

We have audited the parent company financial statements of Kelda Holdco Limited for the year ended 31 March 2011 which comprise the company 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 23, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company 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 parent 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 In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011,
- 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 parent company financial statements are prepared is consistent with the parent company financial statements

Independent Auditors' Report to the members of Kelda Holdco Limited *for the company accounts*

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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.

Other matter
We have reported separately on the group financial statements of Kelda Holdco Limited for the year ended 31 March 2011

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
15 July 2011