Registered Number 06433799

KELDA HOLDCO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 MARCH 2012

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

Contents

OUR BUSINESS

Kelda Holdco Limited (the Company) 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

Yorkshire Water's vision is 'Taking responsibility for the water environment for good' There are six strategic objectives that shape everything the business does

- Trusted company
- Safe water
- Excellent catchments, rivers and coasts
- Water efficient regions
- Sustainable resources
- Strong financial foundations

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 2011/12 in England, Scotland 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, waste water and related markets

Loop

Loop Customer Management Limited (Loop) specialises in cost effective customer relationship management Loop'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

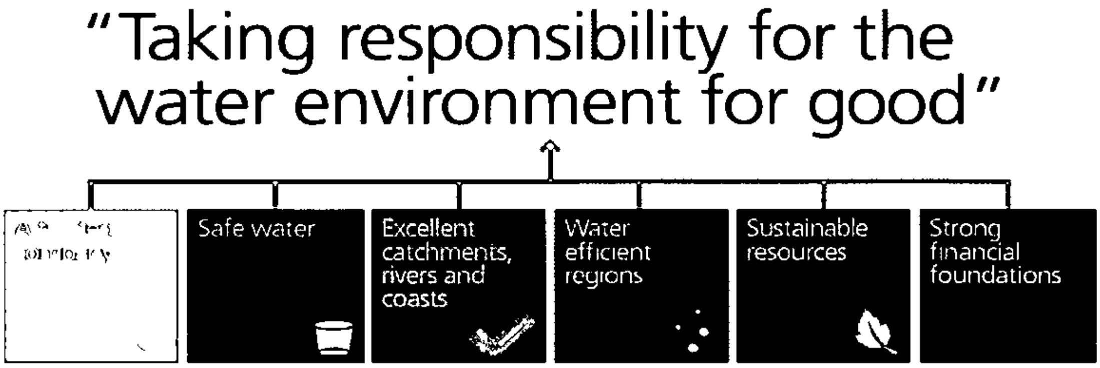
- To add value to the Group's surplus property assets and to maximise proceeds from the sale of those assets

BUSINESS STRATEGY

Water and serving water customers is what we do It's our job to look after this precious natural resource from source to sea The long-term sustainability of water is fundamental to the long term sustainability of our business

To this end, our vision is 'Taking responsibility for the water environment for good'

Our strategic objectives:



These are our six strategic objectives, that shape everything we do

A trusted company – The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future

Safe Water – We protect public health and make sure water is safe to drink We ensure that water does not harm our customers or communities at any point in the process

Excellent catchments, rivers and coasts – We maintain and improve the water environment from source to sea

Water efficient regions – The way we operate and influence others creates water efficient regions

Sustainable resources – The business uses sustainable resources, gets the most out of them and reduces emissions and waste

Strong financial foundations – We deliver our services to customers at a price they are willing and able to pay, whilst providing investors with returns that attract long-term investment

The above strategic business objectives apply to all business of the Group Kelda Water Services, Loop and KeyLand have additional strategic objectives specific to their circumstances

OPERATIONAL PERFORMANCE

Yorkshire Water Services Limited

Key performance indicators

	Target	**Current year**	Previous year
Overall customer satisfaction	77	**77**	76
Total leakage	297 Ml/d	**274 Ml/d**	325 Ml/d
Overall drinking water quality	99 96%	**99.95%**	99 97%
Waste water treatment works compliance	100%	**97.31%**	99 68%
Accidents			
- major and over 3 day accidents	9	**23**	15

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

[redacted]

Yorkshire's water resource situation was healthy in 2011/12, with the region's reservoirs fully recharged in the spring after the harsh winter of 2010

There were no restrictions on customers' water supplies in Yorkshire during the year There have now been no hosepipe bans in Yorkshire since November 1996 and this is largely due to the flexibility of the regional water supply system, the company's continuing efforts to drive down leakage and work with customers to promote water conservation

Yorkshire Water invested a total of £38m in leakage in 2011/12, which saw the company comfortably overachieve the leakage target of 297Ml/d and achieve the lowest ever levels of leakage during the year

[redacted]

Drinking water quality in Yorkshire continues to be excellent, with Yorkshire Water finishing joint top in the Drinking Water Inspectorate's annual performance assessment for 2011

During the year, significant additional investment was also required to manage the implementation of the Government's transfer of private sewers into water company ownership

As a result of new Government legislation, on 1 October 2011 Yorkshire Water became responsible for approximately 22,000kms of extra sewers and lateral drains, with the transfer of several thousands of private pumping stations due to take place by October 2016 The transition was managed effectively, without disruption to customer service

For the second year running there were no Category 1 pollution incidents attributable to Yorkshire Water, disappointingly however there were 15 recorded Category 2 pollution incidents

To improve the company's performance in this area Yorkshire Water has launched a major pollution prevention campaign which involves improving its policies and procedures, additional capital investment at 142 problem locations and the targeted use of an innovative process known as biological dosing to tackle blockages caused by fat, oils and grease

Yorkshire Water ended the 2011 reporting calendar year with eight waste water treatment works failing their consents against a target of three The operational and compliance performance of high risk sites was reviewed as part of weekly Seasonal Planning risk management meetings during 2011/12 and appropriate action taken

[redacted]

In September, the Consumer Council for Water (CC Water) published a report focusing on complaints handling within the water industry in the previous year, 2010/11

Yorkshire Water recorded the second lowest number of complaints of all the water companies in 2010/11

In 2011, Yorkshire Water was ranked 4th out of all the water and sewerage companies in Ofwat's qualitative Service Incentive Mechanism (SIM) A new customer services strategy has now been developed to further improve service levels

In April 2011, Yorkshire Water also published its own views on the future of the water industry, calling on the Government to give water companies greater responsibility in the role of surface water management

The contribution sparked widespread stakeholder discussion at a local and national level and proved to be a valuable pre-cursor to the Government's own White Paper on water management which was published in the autumn

[redacted]

During 2011/12, work started on the company's £110m programme of investment to improve the quality of Yorkshire's beaches and bathing waters

Driven by the Revised Bathing Water Directive, the first phase of construction started in Scarborough, with the second phase of work due to start in 2012 in Bridlington

The aim of the investment is to achieve the new "excellent" bathing water quality standard introduced by Europe and due to come into effect in 2015 This work is being co-ordinated by an environmental partnership board which involves working with a range of external organisations such as the Environment Agency, local councils and Welcome to Yorkshire, the region's tourism board

Work also started on a £79m programme of investment in the Don catchment in South Yorkshire, which will see significant improvements in the quality of the river from source to sea

On a visit to Yorkshire in October, the Environment Minister, Richard Benyon, praised Yorkshire Water for its ground-breaking and innovative approach to catchment management and urged other water companies to adopt a similar approach to managing the natural environment

The following month Yorkshire Water was delighted to announce that 100% of the Sites of Special Scientific Interest situated within its catchments were now in 'recovering or better' status This ensured that Yorkshire Water out-performed the target set by Government

[redacted]

During 2011/12, Yorkshire Water continued to make significant progress to reduce its energy consumption, emissions and its reliance on grid electricity

Work started on a £33m project at Esholt Waste Water Treatment Works in Bradford, where the company is creating the UK's first energy-neutral urban sewage plant This latest investment involves the construction of a BioTheyls Sludge Treatment Plant which will be used to create energy from human waste and trade effluent

Approval was also given for a new £23m anaerobic digestion facility at Blackburn Meadows Waste Water Treatment Works in Sheffield, which will again contribute towards our plan to use renewable resources of power wherever it is appropriate

In total, Yorkshire Water now generates 8% of its energy from renewable sources such as wind, combined heat and power, hydro-electric power and anaerobic digestion The company will continue in its pursuit to increase our levels of renewable energy generation

[redacted]

The financial performance of the Group is reviewed on page 8

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 2012 was £9 9m (2011 £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 seek growth in its core market, providing water and waste water operations and maintenance under long term contracts In the year, KWS had turnover of £70 0m and operating profit of £8 6m (2011 £92 3 and £12 5m)

Last year's financial performance benefited from the positive impact of compensation received from Dwr Cymru (Welsh Water) on the insourcing of the activities covered by the KWS (Wales) operations and maintenance contract Excluding this impact of £3 9m, the financial performance in the current year was an improvement on the previous year

KWS continues to operate across the UK through its wholly owned subsidiaries KWS Defence (England and Wales), KWS Grampian and Aberdeen Environmental Services (Scotland) and KWS Alpha and Dalriada Water (Northern Ireland)

KWS Alpha had a successful year, achieving a contractual step down in its borrowing costs from the European Investment Bank as a result of meeting all required performance criteria since operations commenced

KWS Defence has performed well operationally, whilst dealing with a sustained reduction in water consumption on Ministry of Defence sites which has adversely impacted turnover in the year This trend is likely to continue in 2012

KWS Grampian also had a good year, putting in place several operational improvements Financial performance was marginally below plan due to lower than average rainfall in the catchment over the period, which adversely impacted turnover

There has been significant other activity in the year including completion of a comprehensive review of the UK water market which has provided a focus for bidding activity with KWS being involved in several competitive bids to further its growth aspirations in water and waste water related contracts In addition, KWS is progressing several developments to support the regulated business in achievement of its objectives

Loop

2011/12 was a great year for Loop, delivering good customer service and meeting financial targets

In the second year of the new Ofwat Service Incentive Mechanism (SIM) measures, Loop significantly overachieved against target on the SIM quantative measure which looks at performance on abandoned and unwanted customer calls and written complaints Loop also improved performance on the previous year in the qualitative measure

The continuing economic climate meant that income collection has again been challenging Following restructure of the debt teams in 2010/11, Loop successfully reviewed recovery and hardship strategies Work also commenced on data sharing with credit reference agencies Despite the challenging year Loop out turned ahead of its debt target

A change in legislation on ownership of private sewers came into effect from 1 October 2011 This had a significant impact on Loop Processes were reviewed and revised and 2 3 million legal notices were mailed informing landlords and occupiers of the change Growth in contacts was initially lower than expected but is continuing with steady growth Implementation was very successful as a result of thorough preparation, recruitment, business readiness and training

The company's new online billing service was launched in January 2011 enabling customers to view their bills and manage their accounts online The service launched successfully with encouraging take up which the company hopes to increase through a variety of promotional campaigns

2011/12 was a great year for external recognition Loop were successful for the 8^{th} time in being placed in the Sunday Times 'Top 100 Companies to work for' and received a 1 star rating from Best Companies Following outstanding annual assessments, Loop continues to hold the Investors in People accreditation and the Customer Service Excellence standard In addition, the newly formed high risk team were successful at the Credit Today Awards and won 'Team of the Year' at the Utility Industry Achievement 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 Search volumes normalised during 2011/12 after a year of transition following the abolition of Home Information Packs in May 2010 and are in line with current housing market conditions

KeyLand Developments (KeyLand)

The property market remained subdued throughout 2011/12 with rental and sales values showing little sign of improvement in the markets in which KeyLand is active

The KeyLand business was reviewed part way through the year and was reorganised to focus on maximising the value of property assets released by Yorkshire Water The reorganisation also resulted in a significant reduction in overheads

Notwithstanding the state of the property market and the reorganisation, KeyLand sold more properties in 2011/12 than in all but one of the previous ten years

The Aire Valley in Leeds remains the focus of KeyLand's commercial development activities The main site has planning permission for a major distribution park and forms part of the newly created Leeds City Region Enterprise Zone KeyLand is also involved in a number of joint ventures that control strategic residential development sites around Leeds, which are being promoted through the statutory planning system

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2012	Year ended 31 March 2011
	£m	£m
Operatıng profit before exceptıonal ıtems	**337.7**	350 0
EBITDA before exceptıonal ıtems	**548.4**	556 6

Explanatıon of measures provıded ın Appendıx to Busıness Revıew on page 17

Operating results for the year

The results for the year show an operatıng profit before exceptıonal ıtems of £337 7m (2011 £350 0m) Of thıs, £347 3m (2011 £368 3m) ıs generated by Yorkshıre Water's regulated water busıness Note 3 to the fınancıal statements shows the profıt splıt by segment

Exceptional items for the year

Exceptıonal ıtems comprıse the followıng

	Year ended 31 March 2012	Year ended 31 March 2011
	£m	£m
Included in operating costs:		
Costs assocıated wıth exceptıonal weather condıtıons	-	(5 9)
Costs assocıated wıth a step ıncrease ın leakage performance	**(9.6)**	-
Curtaılment of KWS Wales element of pensıon scheme	-	11 0
Onerous contract provısıon	**(0.7)**	(7 3)
	(10 3)	(2 2)
Included ın finance costs:		
Movement of faır value of ındex lınked swaps	**(512.1)**	10 4
Movement of faır value of ınterest rate swaps	**(7.6)**	8 0
Movement of faır value of combıned cross currency ınterest rate swaps and assocıated bonds	**(2.6)**	-
	(522.3)	18 4

An exceptıonal cost of £9 6m has been ıncurred durıng 2011/12 ın relatıon to ıncremental costs assocıated wıth leakage management Followıng the severe wınters experıenced durıng 2009/10 and 2010/11, Yorkshıre Water's network of water maıns suffered an ıncrease ın the number of bursts and consequently experıenced a hıgher level of leakage Durıng 2011/12 addıtıonal expendıture was ıncurred to ımprove leakage performance such that leakage targets could be achıeved even ın the event of another severe wınter The addıtıonal spend was monıtored separately by management and ıs over and above hıstorıc levels of ınvestment

A revıew of the contract to provıde sewerage servıces to the Cıty of Brıdgeport ın Connectıcut, US, whıch ıs due to termınate ın 2013, has resulted ın an ıncrease to the onerous contract provısıon of £0 7m ın relatıon to expected future losses Thıs has resulted ın an exceptıonal charge of £0 7m ın 2011/12 (2011 £7 3m)

An exceptional cost of £5 9m was incurred in 2010/11 in relation to the severe winter weather experienced in November 2010 and an exceptional benefit of £11 0m was recognised in 2010/11 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 2012 resulted in a £1,403 7m liability (2011 £867 2m) Of the year on year movement of £536 5m, a charge of £24 4m relating to RPI accretion has been recognised within finance costs and a charge of £512 1m has been recognised as an exceptional finance cost 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 2012 resulted in a £17 9m liability (2011 £10 3m) The year on year movement of £7 6m has been recognised as an exceptional finance cost 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 The interest charged or credited to the income statement in relation to these swaps is shown in note 7

Exceptional finance costs also include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception The combined cross currency interest rate swaps were taken out during 2011/12 and have been valued at the reporting date at fair value In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2012 The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £2 6m charge to the income statement

Capital structure

During the year, Yorkshire Water secured a total of £150m of funding from the European Investment Bank with a term of 15 years The company also refinanced its capex and working capital revolving credit facility The new £490m facility expires in October 2016 In addition a total of £335m (sterling equivalent) of funding was raised in the US Private Placement market over a range of maturities from 7 to 30 years Furthermore, the company carried out a restructure of its portfolio of index-linked swaps to eliminate all break dates falling in 2012 and 2014

The proceeds of the £335m new issuance were used to distribute £240m to Kelda Holdco Ltd by way of internal loan Kelda Holdco Limited subsequently used £240m to repay a portion of the loan under the Senior Holdco Facility Agreement (SHFA)

The net debt to Regulated Capital Value (RCV) ratio of Yorkshire Water, as defined under the SHFA, is based on an adjusted debt of £4,458 3m (2011 £4,110 7m) and has increased in the year to 84 5% (from 83 5% at 31 March 2011) Despite the overall increase in adjusted net debt, the RCV has also increased to £5,279m (2011 £4,924m) primarily due to the movement in the RPI and increased capital expenditure

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

Revaluation of property, plant and equipment

The Group's infrastructure assets were valued internally at 31 March 2012 This valuation was incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve after deducting a provision for deferred tax The revaluation during the year ended 31 March 2012 resulted in a net revaluation surplus of £1,222 1m

LOOKING FORWARD

Yorkshire Water

In Apnl 2011, the Kelda Group, of whıch Yorkshıre Water ıs a member, publıshed ıts own vıews on the future of the water ındustry

Responsıble leadershıp and sıgnıficant levels of ınvestment have led to the water ındustry delıvenng consıderably ımproved servıces ın the 21 years sınce pnvatısatıon

However the ındustry now stands at a crossroads The growıng demand for water and waste water servıces, ıncreasıng pressure for sustaınable solutıons, clımate change and the constant search for even better value for money are all forces for change and ıt ıs ımportant that the water ındustry ıs empowered to step up to address the challenges

Kelda's document "Takıng responsıbılıty for the water envıronment for good" combınes strategıc and structural recommendatıons wıth more dırect solutıons

The underlyıng theme of the proposals ıs of the water ındustry playıng a bıgger role ın addressıng the sustaınabılıty of water whılst achıevıng even better value for money for customers The sector and ıts regulators wıll have to thınk dıfferently and be more ınnovatıve to achıeve these dual goals

To obtaın a full copy of Kelda's forward-lookıng plan, go to

http //www yorkshırewater com/publıc-affaırs/read-our-whıte-paper-onlıne aspx

PRINCIPAL RISKS AND UNCERTAINTIES

None of the nsks dıscussed below are consıdered lıkely to have a sıgnıficant ımpact on the short or long term value of the Group ın the ımmedıate future

Yorkshıre Water

We classıfy pnncıpal nsks ın sıx categones
- Changes to the regulatory envıronment,
- Changes ın legıslatıon,
- Clımatıc changes,
- Changes ın technology,
- Socıal ınfluences, and
- Supplıer markets

Changes to the regulatory environment

Ofwat's proposed lıcence modıficatıons

Ofwat recently extended ıts consultatıon ınto proposals to modıfy the pnce revıew element of water companıes' lıcences

Under the Water Industry Act 1991, Ofwat ıs able to modıfy the condıtıons of a company's lıcence ıf ıt agrees to the change If a company does not agree, and ın the absence of any alternatıve, Ofwat can refer the matter to the Competıtıon Commıssıon The Competıtıon Commıssıon then decıdes whether the modıficatıon should be made and, ıf so, ın what form

Ofwat believes that the existing price-setting framework (where price limits are reviewed every five years) is not flexible enough and now wants to be able to specify the nature, form, length and number of price limits it sets in the future

Ofwat agreed to extend the consultation in relation to the proposed modifications in light of opposition expressed by water companies concerned that it could undermine the confidence of investors in the sector

The company is currently discussing both these issues with Ofwat

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 Yorkshire Water is the only UK water company aiming for 'excellent'

The company's £110 million investment programme for the east coast was launched last year to improve its assets, and how it manages them, at 20 designated beaches along 100km of coastline from Staithes to Withernsea

Rising pension costs

The cost of providing pensions has been steadily increasing as people are living longer In addition to this, pension funds across the UK have had hundreds of millions of pounds wiped off their value as a result of the global economic downturn Therefore in April 2012, Yorkshire Water's parent company, Kelda Group Limited, announced a review of the company's pension plan with a view to making it more sustainable in the future

Changes in legislation

Draft Water Bill

On 10 May 2012, it was announced in the Queen's Speech that a draft Water Bill will be included in the Government's legislative programme for the coming year

The Bill allows for greater freedom of public bodies and businesses to choose their water supplier and is designed to make water companies more responsive to the needs of customers Reforms will mainly apply to England and Wales but will also allow for a joint water and sewerage retail market with Scotland

The draft Bill was published on 10 July 2012 It is now subject to pre-legislative scrutiny led by the House of Commons EFRA Select Committee

The Committee will call for evidence and invite stakeholders to present evidence to the Committee in person The Committee will go through the Bill looking at its overall principles and then publish recommendations to the Government

The company will respond to the consultation once the draft bill is published

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)

The House of Commons EFRA Select Committee inquiry on the White Paper ended in April, with the report expected to be published in early summer

Environmental legislation

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

For example, this year the European Commission will present a *Blueprint to Safeguard Europe's Water Resources* This document will assess the implementation and achievements of EU water policy as well as identify gaps and shortcomings On the basis of this analysis, the Blueprint will identify actions to strengthen water policy and to address ongoing vulnerability of the water environment

The European Commission is asking the public for its views on the most appropriate actions to improve water management in Europe and to safeguard water resources for all users (consumers, agriculture, industry and nature itself) The public's views will help to formulate the policy proposals to be included in a Blueprint to Safeguard Europe's Water Resources planned for the end of 2012

The consultation closed on 7 June 2012 Yorkshire Water will monitor the outcomes of the consultation

Climatic changes

Climate change – carbon reduction

The provision of high quality water and wastewater services is carbon and energy intensive Yorkshire Water's energy consumption and the price of electricity are both set to rise significantly in the future The company therefore recognise that it has an important role to play in developing secure low-carbon energy for the UK and its business

Approximately 70% of the company's operational carbon footprint stems from its use of electricity Therefore it continues to invest in its programmes for energy efficiency and low-carbon renewable self-generation Yorkshire Water is working on a group-wide sustainable energy strategy to manage energy environmentally and economically for both customers and investors

Climate change – adaptation

In the future the company's assets and services are likely to be challenged by more frequent and more severe extreme weather events which are projected to occur because the climate is changing Yorkshire Water recently completed climate change risk assessment has confirmed that climate change presents opportunities and risks to its business, in both the short and long term The company is working at the forefront of climate change adaptation because it recognises that the climate and weather are fundamental to the sustainability of its water and wastewater services To avoid significant price shocks for its customers and investors, the company is developing long term plans to prepare for the changing climate The company is currently part way through a multi-phase climate change project which will inform its approach to the upcoming Price Review and longer term planning

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 such as 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 corporate communications over the next five years Yorkshire Water will be monitoring online conversations across social media channels to understand customer sentiment and provide help and advice where possible

Over the last five years Yorkshire Water have seen a significant year-on-year increase in website usage, with over one million customers visiting the website each year to pay bills, send meter readings and request water saving packs

The company has developed a social media policy which is being kept under frequent review as new technologies emerge

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 Yorkshire Water attempts to create advocacy to drive further investment and solve customers' problems

The company has developed its own Customer Panel to capture the views of customers and consumers on key business issues

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 In response the company is now running highly effective graduate and apprentice recruitment campaigns The number of apprentices employed during 2011/12 was 15

Bad debt

In light of the current economic conditions and in particular the contraction of the public sector in Yorkshire it is predicted that higher levels of unemployment will continue This will have an impact on customers and their ability to pay their water bills The company operates several schemes, including the Yorkshire Water Community Trust and Resolve, to help customers who are genuinely struggling to pay their bills

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 thus making 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 tend 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 Carbon Reduction Commitment (CRC) has been implemented and we can expect increased 'carbon tax' in future

To mitigate this, the company is looking to reduce its reliance on grid electricity and use renewable energy where appropriate and economically viable

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 creates 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

KeyLand

KeyLand's pnmary operatıng strategy ıs to maxımıse value from propertıes and land released by Yorkshıre Water by sale or development, eıther on ıts own or ın combınatıon wıth suıtable partners

The maın rısks to KeyLand are

- the quantıty and type of sıtes becomıng avaılable for transfer,
- the fluctuatıng market condıtıons, whıch affect the value of propertıes or land, and
- changes, unpredıctabılıty and delays ın the plannıng system

In the current prevaılıng market condıtıons, KeyLand wıll concentrate on securıng a supply of sıtes to be worked on once condıtıons ımprove and, ın the ınterım, focus on those dısposals whıch are most resılıent to the downturn or unlıkely to ımprove wıth 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 Group recognises the value of listening to customers in order to deliver improvements that not only meet but surpass expectations Customer satisfaction for the regulated business is monitored on a regular basis by Ofwat based upon the Service Incentive Mechanism (SIM)

SIM measures the level of customer concern with company service and how well an Ofwat regulated company deals with them The SIM is a financial mechanism to incentivise optimal levels of customer service, through the price control process SIM is a combination of a qualitative and quantitative measure and both households and non-household customers are included

The quantitative measure reflects the number of complaints and telephone contacts that a company receive It measures the number of complaints from different stages of the complaints process and takes into account whether the company resolved the consumers' problem first time Each element within the quantitative measure is weighted to reflect the increasing impact on consumers, and the cost, of failing to deal effectively with a complaint first time

The qualitative measure reflects how satisfied consumers are with the quality of service they receive from their company It is based on a survey of consumers who have had direct contact with their company The survey asks consumers how satisfied they were with the way the supplier resolved their billing or operational issue

Both of these measures are combined to give a combined consumer experience measure

Leakage

Total leakage measures the sum of distribution losses and supply pipe losses in megalitres per day (Ml/d) It includes any uncontrolled losses between the treatment works and the customer's stop tap It does not include internal plumbing losses

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 Yorkshire Water uses 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, and
- 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)

The directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2012

Financial results for the year

The loss for the year after tax was £340 1m (2011 £89 6m profit) The directors do not recommend the payment of a dividend in respect of the financial year (2011 £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, forward-looking statements and a description of the principal risks and uncertainties facing the Group are set out in the business review on pages 1 to 18

The purpose of this annual report is to provide information to the Group'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
Kevin Whiteman
Stuart McFarlane
Liz Barber

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency During the year, £8 2m was committed to research and development including £7 5m on non-current assets

Valuation of assets

The Group has adopted an accounting policy of valuation in respect of certain categories of fixed assets (infrastructure 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 12 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 those asset classes 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 19 days (2011 23 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

Regular employee satisfaction surveys are undertaken throughout the company, using a variety of engagement tools including telephone-based and online surveys We also supplement the surveys with a variety of employee focus groups

These surveys and focus groups highlight what is going well and provide the company with valuable information about where to place more emphasis to really make a difference to how people feel at work

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 unions, communication and consultative team meetings 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 policy, 'open to all', 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

Key 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 In 2012/13 a further 17 apprentices will join what is already a successful programme

The Group places great emphasis on enhancing business performance by maximising individual, team and organisational potential through skills development We are focused on developing safety, technical, behavioural and leadership capability It is our belief that everyone can demonstrate leadership skills This commitment is demonstrated through our focus on leadership development for managers and senior managers across the business and the company's commitment to embedding a coaching culture This enables people to learn and grow by identifying and focusing on their own development areas The Group provides a wide range of development opportunities, including in-house and accredited programmes to help all employees (including disabled employees) develop the necessary skills, knowledge, values and experience to realise their performance potential

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 within the business These goals include a combination of reductions of accidents, near miss reporting, hazard identification, behavioural safety conversation, training delivery, internal safety audits and health promotion and surveillance programmes

Senior management awareness and active employee involvement in health and safety is fundamental to company success A Think Safety First programme was launched successfully in Yorkshire Water in 2006 and is now being reviewed to further improve its currency and its impact in communicating and engagement with colleagues across the business around their health and safety risks

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 company are intended to place emphasis on the proactive identification and control of our health and safety risks

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 (2011 £0 7m) No political donations were made (2011 £nil)

Independent auditors

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

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

Financial instruments

Details are provided in the financial statements section under note 22

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 The Group has £606 0m of undrawn committed borrowing facilities (note 16) and has a robust business model with positive cash flows projected for the next 25 years (note 10) For these reasons, the directors 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

On behalf of the Board

Richard Flint, Director
11 July 2012

Company secretary Stuart McFarlane

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

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 Limited group is detailed in the Annual Report and Financial Statements of that group 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 By virtue of the articles of association, the company had also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006

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 2012 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 2012 and of its loss 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 2012

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
11 July 2012

The maintenance and integrity of the Kelda website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

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

Group income statement
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Group revenue	3	**961.8**	950 7
Operatıng costs before exceptıonal ıtems	4	**(624.1)**	(600 7)
Exceptıonal ıtems	5	**(10.3)**	(2 2)
Total operating costs		**(634.4)**	(602 9)
Group operating profit before share of associates and joint ventures		**327 4**	347 8
Share of associates' and joint ventures' profit after tax	13	**0.5**	0 2
Group operating profit from continuing operations	3	**327.9**	348 0
Investment income	7	**72.5**	72 7
Finance costs before exceptional items	7	**(388.6)**	(379 3)
Exceptional finance (costs)/income	5	**(522.3)**	18 4
Total finance costs		**(910.9)**	(360 9)
(Loss)/profit from continuing operations before taxation		**(510.5)**	59 8
Tax credit	8	**170.4**	29 8
(Loss)/profit for the year attributable to owners of the parent		**(340.1)**	89 6

All material activities in both the current and previous year relate to continuing operations

Group statement of comprehensive income
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
(Loss)/profit for the year		**(340.1)**	89 6
Other comprehensive income·			
Losses on hedges taken to equity		**(6.5)**	(4 8)
Actuarial losses in respect of defined benefit pension	20	**(79 5)**	(5 7)
Revaluation surplus	12	**1,607.9**	-
Tax on items taken directly to comprehensive income	8	**(365.3)**	2 7
Other comprehensive income/(expense) for the year		**1,156.6**	(7 8)
Total comprehensive income for the year		**816 5**	81 8

Group balance sheet

as at 31 March 2012

	Note	2012 £m	2011 £m
Non-current assets			
Intangible assets	10	**1,811.7**	1,812 1
Financial assets	11	**153 1**	157 8
Property, plant and equipment	12	**6,875.8**	5,012 1
Investments in associated undertakings and joint ventures	13	**2.7**	2 7
Loans to associated undertakings and joint ventures	13	**3 4**	3 4
		8,846.7	6,988 1
Current assets			
Inventories	14	**1.8**	1 6
Trade and other receivables	15	**218 8**	229 9
Cash and cash equivalents	16	**27.8**	67 2
Short term deposits	16	**30 5**	41 4
		278 9	340 1
Total assets		**9,125.6**	7,328 2
Current liabilities			
Trade and other payables	17	**(486.5)**	(449 0)
Tax liabilities		**(4.1)**	(24 8)
Short term borrowings	16	**(573 2)**	(164 2)
		(1,063.8)	(638 0)
Non-current liabilities			
Long term borrowings	16	**(3,831.9)**	(4,070 8)
Long term payables	17	**(69 2)**	(70 8)
Financial liabilities	22	**(1,371.8)**	(842 2)
Deferred grants and contributions on depreciated assets	17	**(68.0)**	(76 9)
Retirement benefits deficit	20	**(99.7)**	(40 0)
Provisions	18	**(23.2)**	(24 8)
Deferred tax liabilities	19	**(804.5)**	(588 1)
		(6,268 3)	(5,713 6)
Total liabilities		**(7,332.1)**	(6,351 6)
Net assets		**1,793.5**	976 6
Capital and reserves attributable to owners of the parent			
Ordinary shares	21	**1,473.5**	1,473 5
Hedging reserve		**(21.8)**	(16 7)
Revaluation reserve		**1,261.1**	38 3
Share-based payment reserve		**5.2**	5 2
Accumulated deficit		**(924.5)**	(523 7)
Total equity		**1,793 5**	976 6

The financial statements on pages 28 to 84 were approved by the board of directors on 11 July 2012 and signed on their behalf by

Liz Barber
Director

Registered Number 06433799

Group statement of changes in equity

for the year ended 31 March 2012

	Ordinary shares £m	Hedging reserve £m	Revaluation reserve £m	Share-based payment reserve £m	Accumulated deficit £m	Total £m
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
Loss for the year	-	-	-	-	(340 1)	(340 1)
Credit to income statement for surplus depreciation	-	-	(0 3)	-	0 3	-
Other movements	-	-	1 0	-	(0 6)	0 4
Total included in the Group statement of comprehensive income	-	(5 1)	1,222 1	-	(60 4)	1,156 6
At 31 March 2012	**1,473.5**	**(21 8)**	**1,261.1**	**5 2**	**(924 5)**	**1,793.5**

Group cash flow statement

for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities	24	**518.1**	525 0
Income taxes paid		**(0.1)**	(12 2)
Interest paid		**(242.6)**	(195 3)
Net cash generated from operating activities		**275.4**	317 5
Cash flows from investing activities			
Dividends received from associates		**0 8**	1 0
Interest received		**7.5**	3 2
Increase in loans to associates and joint ventures		**-**	(0 9)
Proceeds on disposals of property, plant and equipment		**1 9**	5 8
Purchases of property, plant and equipment		**(409.1)**	(231 9)
Capital grants and contributions		**11 2**	7 7
Net cash used in investing activities		**(387 7)**	(215 1)
Cash flows from financing activities			
Borrowings raised (net of fees)		**574.5**	703 4
Repayment of loan to parent company		**(118 0)**	(182 3)
Repayments of borrowings		**(324.3)**	(748 1)
Repayment of obligations under finance leases and hire purchase agreements		**(70.2)**	(15 7)
Net cash generated from/(used in) financing activities		**62.0**	(242 7)
Net decrease in cash and cash equivalents		**(50 3)**	(140 3)
Cash and cash equivalents at the beginning of the year		**108 6**	248 9
Cash and cash equivalents at the end of the year	16	**58 3**	108 6

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2012 were authorised for issue by the board of directors on 11 July 2012 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 are 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 on the going concern basis 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 2012

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 and pension scheme liabilities that are measured using actuarial valuations

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 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 The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentation currency

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 This 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 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

Capitalised bid costs are deemed to have a useful life of between 22 and 25 years The amortisation expense is included in "Operating expenses before exceptionals" in the income statement (see note 4)

Property, plant and equipment
Residential properties, non-specialised properties and rural estates held within Land and Buildings are held at valuation During the year the accounting policy of infrastructure assets was changed and they are now held at a valuation (see note 12) Other property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment

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

Land and Buildings	
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

Infrastructure assets, residential properties, non-specialised properties and rural estates are held at valuation with 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 financial year 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

Provisions are made for self insured claims incurred but not reported, contracts which are considered onerous, accumulated losses relating to associated undertakings 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 probable 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 In the current and prior 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 for which management information is presented to the board, which is deemed to be the Group's chief operating decision maker 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

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 present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions The assumptions used in determining the net cost (income) for pensions include the discount rate Any changes in these assumptions will impact the carrying amount of the pension obligation

The group determines the appropriate discount rate at the end of each year This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations In determining the appropriate discount rate, the group considers the market yields at the reporting date on high quality corporate bonds

Other key assumptions for pension obligations are based in part on current market conditions Additional information is disclosed in note 20

Were the discount rate used to differ by 0 25% from management's estimates, the carrying amount of pension obligations would be an estimated £49m higher or £49m lower

- Goodwill impairment testing

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2 These calculations include estimates of future cash flows of each cash generating unit and the use of estimated discount rates Management base their estimate of discount rate on a consideration of the long term risk free interest rate for the UK, an industry specific risk factor (beta factor), a market risk premium at the date of valuation and a company specific risk factor

In reviewing goodwill for impairment the Group applied a discount rate of 10 0% and a long term inflation rate of 2 75% to the expected future cash flows of the Group Were the discount rate used to increase by 2 3% from management's estimates, the headroom available in the goodwill impairment review would be eliminated Were the long term inflation rate to decrease by 2 35% from management's estimates, the headroom available in the goodwill impairment review would be eliminated

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on page 35 of the financial statements Estimated useful economic lives of PPE are based on management's judgement and experience When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively Due to the significance of capital investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively Historically, only minor changes to estimated useful lives have been required The Group is required to evaluate the carrying value of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review

- Onerous contracts provision

The Group has made a provision 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 and while the expected future losses are uncertain management do not expect any material difference to the amounts provided

- Provision for doubtful debts

At each balance sheet date, the Group evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results positively or negatively As at 31 March 2012 current trade receivables were £110 9m, before provision for impairments

- Taxation

The corporation tax provision of £4 1m (2011 £24 8m) reflects management's estimation of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed by Her Majesty's Revenue and Customs

New standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2011 and do not have a material impact on the Group

- IAS 24 (revised) 'Related party disclosures' (effective 1 January 2011)
- Amendment to IFRS 1 'First time adoption on financial instrument disclosures' (effective 1 January 2011)
- Annual improvements 2010 (effective 1 January 2011)
- Amendment to IFRIC 14 'Prepayments of a minimum funding requirement' (effective 1 January 2011)
- IFRIC 19 'Extinguished financial liabilities with equity investments' (effective 1 January 2011)

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Group

- Amendment to IFRS 7 'Financial instruments disclosures – transfer of assets'
- Amendment to IFRS 7 'Financial instruments disclosures – offsetting financial assets and liabilities'
- Amendment to IFRS 1 'First time adoption on fixed dates and hyperinflation'
- Amendment to IAS 12 'Income taxes – deferred tax'
- Amendment to IAS 19 'Employee benefits'
- Amendment to IAS 1 'Financial statement presentation – other comprehensive income'
- Amendment to IAS 32 'Financial instruments presentation - offsetting financial assets and liabilities'
- Amendment to IFRS 1 'First time adoption – government loans'
- IFRS 9 'Financial instruments – classification and measurement'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Fair value measurement'
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associates and joint ventures'
- IFRIC 20 'Stripping costs in the production phase of a surface mine'

The application of these standards and interpretations is not anticipated to have a material effect on the Group's financial statements

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 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 2012

	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	885 0	101 9	9 6	24 1	3 3	-	17 8	1,041 7	(3 0)	(9 6)	1,029 1
Inter-company revenue	(2 8)	(41 5)	-	(22 7)	(0 3)	-	-	(67 3)	-	-	(67 3)
External revenue	**882 2**	**60 4**	**9 6**	**1 4**	**3 0**	-	**17 8**	**974 4**	**(3 0)**	**(9 6)**	**961 8**
Depreciation	(225 8)	(9 6)	-	(0 2)	-	-	22 0	(213 6)	-	-	(213 6)
Amortisation of deferred grant income	3 3	-	-	-	-	-	-	3 3	-	-	3 3
Other operating costs	(312 4)	(45 6)	(6 2)	0 1	(3 6)	-	(55 3)	(423 0)	3 0	9 6	(410 4)
	347 3	**5 2**	**3 4**	**1 3**	**(0 6)**	-	**(15 5)**	**341 1**	-	-	**341 1**
Exceptional items in operating costs								(10 3)	-	-	(10 3)
								330 8	-	-	**330 8**
Less associates' and joint ventures' interest								(2 6)	-	-	(2 6)
Less associates' and joint ventures' tax								(0 3)	-	-	(0 3)
Group operating profit from continuing operations								**327 9**	-	-	**327 9**
Investment income											72 5
Finance costs											(388 6)
Exceptional items in finance costs											(522 3)
Loss from continuing operations before taxation											**(510 5)**
Tax credit											170 4
Loss for the year attributable to equity shareholders											**(340 1)**

	UK regulated water services	KWS - group	Loop	KeyLand - group	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m	£m
Assets	11,901 7	282 6	6 6	43 0	(3,169 3)	9,064 6
Investments in associates and joint ventures accounted for by the equity method	-	1 3	-	1 4	-	2 7
Liabilities	(5,621 3)	(161 4)	(4 8)	(15 6)	2,876 1	(2,927 0)
Net debt	(4,128 8)	(95 9)	(0 2)	-	(121 9)	(4,346 8)
Net assets	**2,151 6**	**26 6**	**1 6**	**28 8**	**(415 1)**	**1,793 5**
Other information						
Capital additions	**404 3**	**4 9**	**0 1**	-	**65 7**	**475 0**

Net debt of £4,346 8m as noted above includes cash of £27 8m and short term deposits of £30 5m which are included in the balance sheet within total assets, and borrowings of £4,405 1m which are included on the balance sheet in total liabilities Net debt is defined in note 24, 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 (including investments in associates and joint ventures) 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 £m	Total £m
Sales revenue	952 9	8 9	961 8
Carrying value of assets	9,056 7	10 6	9,067 3
Capital additions to property, plant and equipment	475 0	-	475 0

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**

Year ended 31 March 2011

	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	310 2	5 8	43 2	(2,329 6)	7,216 9
Investments in associates and joint ventures accounted for by the equity method	-	1 3	-	1 4	-	2 7
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 24, 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 (including investments in associates and joint ventures) 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

4. Operating costs before exceptional items

	2012 **£m**	2011 £m
Own work capitalised	**(36.0)**	(31 7)
Raw materials and consumables	**28.9**	27 4
Other external charges	**281.3**	267 3
Staff costs (note 6)	**124.1**	114 9
Depreciation of property, plant and equipment (note 12)		
On owned assets		
- UK infrastructure	**35.5**	34 8
- other assets	**168.0**	162 8
On assets held under finance lease		
- UK infrastructure	**1 6**	2 3
- other assets	**8.5**	9 1
Operating lease rentals - minimum lease payments		
- plant and equipment	**1 9**	2 0
- other	**0.6**	0 7
Amortisation of grants and contributions	**(3 3)**	(3 1)
Amortisation of intangible assets (note 10)	**0 4**	0 7
Research and development	**0 7**	4 5
Impairment of trade receivables	**15 3**	16 2
Other operating income	**(3.4)**	(7 2)
	624.1	600 7

There have been no operations classified as discontinued during the year ended 31 March 2012

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 8, is calculated as follows

	2012 **£m**	2011 £m
Group operating profit before share of associates and joint ventures	**327.4**	347 8
Add back exceptional items	**10 3**	2 2
Add back depreciation and amortisation of capital grants (as above)	**210.3**	205 9
Add back amortisation of intangible assets (as above)	**0.4**	0 7
EBITDA	**548.4**	556 6

Auditors' remuneration

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

	2012 £m	2011 £m
Fees payable to the Group's auditor for the audit of the parent company and consolidated financial statements	**0.3**	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
- Fees for other services	**1 3**	0 2
	1.7	0 5

5. Exceptional items

Exceptional items comprise

	2012 £m	2011 £m
Included in operating costs:		
Onerous contract provision	**(0.7)**	(7 3)
Costs associated with exceptional weather conditions	**-**	(5 9)
Curtailment of KWS Wales portion of pension deficit	**-**	11 0
Costs associated with a step increase in leakage performance	**(9.6)**	-
	(10 3)	(2 2)
Included in finance costs		
Movement of fair value of index linked swaps	**(512.1)**	10 4
Movement of fair value of finance lease interest rate swaps	**(7 6)**	8 0
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(2.6)**	-
Movement of fair value of swaps	**(522.3)**	18 4

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 increase to the onerous contract provision of £0 7m in relation to expected future losses This has resulted in an exceptional charge of £0 7m in 2011/12 (2011 £7 3m)

Following the severe winters experienced during 2009/10 and 2010/11, Yorkshire Water's network of water mains suffered an increase in the number of bursts and consequently experienced a higher level of leakage During 2011/12 additional expenditure was incurred to improve leakage performance such that leakage targets could be achieved even in the event of another severe winter The additional spend was monitored separately by management and is over and above historic levels of investment The additional spend of £9 6m is material and is therefore recognised as an exceptional charge of £9 6m in 2011/12

An exceptional cost of £5 9m was incurred in 2010/11 in relation to the severe winter weather experienced in November 2010

An exceptional benefit of £11 0m was recognised in 2010/11 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 2012 resulted in a £1,403 7m provision (2011 £867 2m) Of the year on year movement of £536 5m, a charge of £24 4m relating to RPI accretion has been recognised within finance costs and a charge of £512 1m has been recognised as an exceptional finance cost 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 2012 resulted in a £17 9m loss (2011 £10 3m) The year on year movement of £7 6m has been recognised as an exceptional finance cost 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 The interest charged or credited to the income statement in relation to these swaps is shown in note 7

Exceptional finance costs also include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception The combined cross currency interest rate swaps were taken out during 2011/12 and have been valued at the reporting date at fair value In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2012 The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £2 6m charge to the income statement

6. Directors and employees

Average monthly number of people employed by the group	**2012 Number**	2011 Number
Continuing operations:		
UK regulated water services	**2,495**	2,329
Other activities	**830**	809
	3,325	3,138

	2012 £m	2011 £m
Total employment costs		
Wages and salaries	**96.9**	91 0
Social security contributions	**9.2**	8 2
Other pension costs	**18.0**	15 7
	124.1	114 9

Included in wages and salaries is a total share-based payment expense of £nil (2011 £0 1m), all of which relates to transactions accounted for as equity-settled share-based payments

Directors' emoluments

	2012	2011
	£m	£m
Wages and salaries	**1.6**	1 6
Social security contributions	**0 3**	0 3
Other pension costs	**0.2**	0 2
	2.1	2 1

The amounts in respect of the highest paid director are as follows

	2012	2011
	£m	£m
Wages and salaries	**0.6**	0 6
Social security contributions ·	**0.1**	0 1
Other pension costs	**0.1**	0 1
	0.8	0 8

All executive directors have service agreements which are terminable by the group on 12 months' notice

During 2011/12, all executive directors except one were contributory members of the Kelda Group Pension Plan, a defined benefit scheme The accrued pension benefit of the highest paid director in 2011/12 was £0 1m (2011 £0 2m) One director has exercised share options during the year

The Group contributed £0 1m (2011 £nil) to a defined contribution scheme on behalf of one director

7. Investment income and finance costs

	2012 £m	2011 £m
Investment income		
Interest on bank deposits	**0.9**	2 0
Interest receivable from index linked swaps	**14 7**	15 6
Return on pension scheme assets (note 20)	**56.9**	55 1
Total investment income	**72.5**	72 7
Finance costs		
Interest payable on guaranteed bonds	**176.7**	183 1
Interest payable on US Dollar bonds	**0.8**	-
Amortisation of issue costs in respect of bonds	**2.6**	2 6
Total finance costs for bonds	**180.1**	185 7
Bank loans and overdrafts	**38.4**	35 5
Other loans	**60.5**	46 6
Interest payable on index linked swaps	**36.7**	39 3
Finance leases	**12.4**	7 2
Change in fair value of financial assets	**9 4**	9 1
Interest payable to parent companies	**1.2**	6 5
Interest cost on pension scheme liabilities (note 20)	**49 9**	49 4
Total finance costs	**388 6**	379 3

£12 1m of interest has been capitalised by the Group during the year (2011 £2 0m)

For more information on guaranteed and US Dollar bonds refer to note 16

8. Tax credit

	2012 £m	2011 £m
Current tax		
UK corporation tax at 26%	-	14 7
Adjustments in respect of prior periods	(22.5)	(13 7)
Total current tax from continuing operations	**(22.5)**	1 0
Deferred tax		
UK charge for temporary differences arising and reversing in the year	(118.3)	-
Effect of change in tax rates	(31.5)	(30 3)
Adjustments in respect of prior periods	1.9	(0 5)
Total deferred tax on continuing activities (note 19)	**(147.9)**	(30 8)
Total tax credit on (loss)/profit on ordinary activities	**(170.4)**	(29 8)

Tax relating to items charged/(credited) to equity		
Deferred tax:		
Actuarial losses in respect of defined benefit pension schemes	(19.0)	(1 5)
Losses on hedges	(1.5)	(1 2)
Revaluation of infrastructure assets	385.8	-
Tax charge/(credit) in the Group statement of comprehensive income	**365.3**	(2 7)

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 26% (2011 28%) to the (loss)/profit on ordinary activities before tax is as follows

	2012 £m	2011 £m
(Loss)/profit from continuing operations before taxation	(510.5)	59 8
Less share of associates' and joint ventures' taxation	0.3	0 4
	(510.2)	60 2
Less share of associates' and joint ventures' (profit)/loss before tax	(0.8)	(0 7)
	(511.0)	59 5
Current and deferred tax on group loss on ordinary activities at the standard UK tax rate	(132.9)	16 7
Effects of		
Expenses not deductible for tax purposes	18.7	14 7
Change in deferred tax rate	(35.6)	(47 0)
Adjustments in respect of prior periods	(20.6)	(14 2)
Group current and deferred tax credit for the year	**(170.4)**	(29 8)

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)

In addition to the changes in rates of corporation tax disclosed above a number of further changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012 Further reductions to the main rate are proposed to reduce the rate to 22% from 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The effect of the changes expected to be enacted in the Finance Act 2012 would be to reduce the deferred tax liability provided at the balance sheet date by £33 5m This £33 5m decrease in the deferred tax liability would increase profit by £18 5m, decrease other comprehensive income by £1 6m and increase the revaluation reserve by £16 6m This decrease in deferred tax liability is due to the reduction in the corporation tax rate from 24% to 23% with effect from 1 April 2013

The proposed reduction of the main rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately The overall effect of this further change, if it applied to the deferred tax balance at the balance sheet date, would be to further reduce the deferred tax liability by an additional £33 5m

The deferred tax credit for the year relates to the following

	2012	2011
	£m	£m
Accelerated depreciation for tax purposes	**(40.7)**	(71 2)
Fair value adjustment of infrastructure assets	**1 8**	2 3
Roll-over relief	**(0.1)**	(0 1)
Financial instruments	**(114.5)**	30 7
Retirement benefit obligations	**5 6**	7 5
Deferred tax credit	**(147 9)**	(30 8)

9. Dividends

No dividends were paid during the year (2011 £nil)

10. Intangible assets

	Capitalised bid costs £m	**Goodwill £m**	**Total £m**
Cost			
At 31 March 2011 and 31 March 2012	**15.9**	**1,800 3**	**1,816.2**
Accumulated amortisation			
At 1 April 2010	3 4	-	3 4
Amortisation	0 7	-	0 7
At 31 March 2011	4 1	-	4 1
Amortisation	0 4	-	0 4
At 31 March 2012	**4.5**	**-**	**4.5**
Net book value carried forward	**11 4**	**1,800.3**	**1,811.7**
Net book value brought forward	11 8	1,800 3	1,812 1

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 25 year period The period of cash flows of 25 years is deemed appropriate as it aligns with the long term planning of the regulated business as determined by Ofwat The discount and inflation rates applied have been determined following advice from external consultants based on risk factors specific to the industry and circumstances of the Group

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

	2012	2011
Long term inflation (post 2013)	**2.75%**	2 75%
Discount rate (post-tax)	**10.0%**	9 20%

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2012 or year ended 31 March 2011

Sensitivities to change in the above assumptions are disclosed on page 41

11. Financial assets

	2012 £m	2011 £m
At 1 April	157 8	-
Transferred from property, plant and equipment (PPE)	-	166 9
Additions	4 7	-
Movement in fair value	(9 4)	(9 1)
At 31 March	**153.1**	157 8

The transfer of financial assets from property, plant and equipment 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 Group 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 existing 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, ımproved and maıntaıned under the PPCC wıth the Mınıstry of Defence are contractually requıred to be novated to the Mınıstry of Defence at nıl cost at the end of the agreement

The constructıon and development phase of both contracts dısclosed above ıs deemed to be materıally complete and no revenue, profıts or losses were recognısed durıng the year on exchangıng constructıon servıces for a fınancıal asset In addıtıon, management deem that assets fallıng wıthın the scope of the contracts are maıntaıned to the standards requıred by the contract As such no provısıon for further constructıon or maıntenance oblıgatıons has been recognısed ın these fınancıal statements

12. Property, plant and equıpment

	Land and buıldıngs £m	Infrastructure assets £m	Plant and equıpment £m	Under constructıon £m	Group total £m
Cost or valuation					
At 1 Aprıl 2011	1,717 6	3,134 2	2,599 8	293 9	7,745 5
Addıtıons at cost	8 2	120 2	49 1	308 9	486 4
Grants and contrıbutıons	-	-	-	(11 4)	(11 4)
Transfers on commıssıonıng	9 9	13 8	55 7	(79 4)	-
Surplus on revaluatıon	-	551 4	-	-	551 4
Dısposals	(7 3)	-	(10 5)	(0 2)	(18 0)
At 31 March 2012	**1,728 4**	**3,819 6**	**2,694.1**	**511 8**	**8,753.9**
Accumulated deprecıatıon					
At 1 Aprıl 2011	400 0	1,022 0	1,311 4	-	2,733 4
Charge for the year	39 9	34 5	139 0	0 2	213 6
Dısposals	(6 4)	-	(5 8)	(0 2)	(12 4)
Surplus on revaluatıon	-	(1,056 5)	-	-	(1,056 5)
At 31 March 2012	**433.5**	**-**	**1,444.6**	**-**	**1,878.1**
Net book amount at 31 March 2012	**1,294 9**	**3,819 6**	**1,249.5**	**511 8**	**6,875.8**

Durıng the year the Group capıtalısed borrowıng costs amountıng to £12 1m (2011 £2 0m) on qualıfyıng assets Borrowıng costs were capıtalısed at the weıghted average rate of ıts general borrowıngs of 4 32% (2011 4 59%)

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2010	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

During 2011 certain items of plant and equipment were transferred to financial assets following adoption of IFRIC 12 "Service Concession Contracts" Refer to note 11 for more information

Assets included above held under finance leases amount to

	Land and buildings £m	**Infrastructure assets £m**	**Plant and equipment £m**	**Group total £m**
Cost	109 5	71 7	192 6	**373.8**
Depreciation	(32 1)	(23 3)	(129 4)	**(184 8)**
Net book amount at 31 March 2012	**77 4**	**48 4**	**63 2**	**189 0**
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

The Group's infrastructure assets were valued at 31 March 2012 These valuations were performed in accordance with IAS 16 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses

IAS 16 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plan and equipment, an entity to estimate fair value using an income approach Having considered the requirement of IAS 16, Management concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company is a two step approach

- Estimating the business value in use ('VIU'), using a discounted cash flow ('DCF') model excluding outperformance against Ofwat's targets to determine the business enterprise value Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business The enterprise value was then cross-checked against the Regulatory Capital Value ('RCV') This step was followed by

- Allocating the VIU of the business (less relevant working capital balances) to individual classes of tangible fixed assets

Such valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,268 2m (2011 £3,134 2m)

Certain other categories of the Group's land and buildings are also held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2009 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 external valuations will be re-performed on a periodic basis An interim valuation is booked in intervening years based on directors' valuations No changes in values have been booked during the year The Manager of Land, Property and Planning, a member of the Royal Institution of Chartered Surveyors, has reviewed the carrying value at 31 March 2012 of Yorkshire Water's non specialised land and buildings and considers that no impairment or uplift would be required to the accounts, and the current book values are not materially different to current market values

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 2012 is £1,659 1m (2011 £51 6m) offset by a provision for deferred tax on the revalued amount of £398 1m (2011 £13 3m)

Categories of assets revalued are as follows

	Revalued amount £m	**Historical cost basis £m**
Non-specialist properties	7 5	2 4
Infrastructure assets	3,277 3	1,669 4
Rural estates	43 9	0 8
Residential properties	4 7	0 1
Net book amount of asset revalued	**3,333 4**	**1,672.7**

Analysis of the net book value of revalued non specialised land and buildings is as follows

	Revalued amount £m	Historical cost basis £m
At 31 March 2010	55 5	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 2011	54 9	3 3
Disposal of revalued assets	(0 2)	-
Transfer to profit and loss reserve for additional depreciation incurred	(0 3)	-
Net book amount at 31 March 2012	**54.4**	**3 3**

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

	Revalued amount £m	Historical cost basis £m
At cost	4,876 1	3,268 2
Aggregate depreciation	(1,056 5)	(1,056 5)
31 March 2012	**3,819.6**	**2,211 7**

13. Investments

	Share of net assets in associated undertakings £m	Loans to associated undertakings £m	Total investments in associated undertakings £m	Share of net assets in joint ventures £m	Loans from joint ventures £m	Total investments in joint ventures £m
Cost and share of post acquisition retained losses						
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)	-
Share of sustained loss for the year	(0 3)	-	(0 3)	-	-	-
At 31 March 2012	**(5 2)**	**4.7**	**(0 5)**	**1.3**	**(1.3)**	**-**

Of the share of net assets in the table above of (£3 9m) (2011 (£3 6m)), the share of losses relating to certain associated undertakings of (£6 6m) (2011 (£6 3m)) is held as a provision in line with IAS27 The remaining £2 7m (2011 £2 7m) is shown as an investment

The principal associated undertakings and joint ventures of the Group are set out on page 85

The aggregate amounts of net assets, revenue and operating loss relating to associates are

	2012 £m	2011 £m
Non-current assets	**4.1**	4 3
Current assets	**4.9**	4 4
Share of gross assets	**9.0**	8 7
Current liabilities	**(14.2)**	(13 6)
Share of liabilities	**(14.2)**	(13 6)
Share of net liabilities	**(5.2)**	(4 9)
Operating loss	-	(0 5)
Finance costs	**(0.2)**	(0 3)
Loss before tax	**(0.2)**	(0 8)
Tax credit	**(0.1)**	-
Sustained loss	**(0 3)**	(0 8)

The aggregate amounts of net assets and net profit relating to joint ventures are

	2012 £m	2011 £m
Non-current assets	**30.9**	32 8
Current assets	**8 9**	7 9
Share of gross assets	**39 8**	40 7
Current liabilities	**(2.4)**	(2 5)
Non-current liabilities	**(36 1)**	(36 9)
Share of liabilities	**(38 5)**	(39 4)
Share of net assets	**1 3**	1 3
Revenue	**9.6**	9 7
Operating costs	**(6.2)**	(5 8)
Operating profit	**3.4**	3 9
Finance costs	**(2.4)**	(2 5)
Profit before tax	**1.0**	1 4
Tax charge	**(0 2)**	(0 4)
Net profit	**0 8**	1 0
Dividends paid	**(0.8)**	(1 0)
Sustained loss	-	-

14. Inventories

	2012 £m	2011 £m
Raw materials and consumables	**1.8**	1 6

15. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**110.9**	102 7
Provision for impairment of trade receivables	**(24.1)**	(22 7)
Amounts owed by associated undertakings	**1.3**	1 3
Prepayments and accrued income	**71.2**	79 6
Amounts owed by group companies	**25.9**	33 5
Other receivables	**33.6**	35 5
	218.8	229 9

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 22 for further details of credit risks associated with financial instruments

Trade receivables can be analysed as follows

	2012 £m	2011 £m
Main charges trade receivables:		
Past due but not impaired	**69.8**	68 1
Past due and impaired	**22.8**	21 3
Other trade receivables·		
Past due but not impaired	**17.0**	11 9
Past due and impaired	**1.3**	1 4
	110.9	102 7

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

	2012 £m	2011 £m
Main charges trade receivables:		
Less than one year overdue	**47.9**	47 2
Between one and two years overdue	**12.1**	11 8
Between two and three years overdue	**5.5**	5 1
Between three and four years overdue	**2 4**	2 2
More than four years overdue	**1 9**	1 8
Other trade receivables.		
Less than one year overdue	**16.9**	11 3
Between one and two years overdue	**0.1**	0 5
Between two and three years overdue	**-**	0 1
	86.8	80 0

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

	2012 £m	2011 £m
Main charges trade receivables:		
Less than one year overdue	**9.1**	8 5
Between one and two years overdue	**4.7**	4 6
Between two and three years overdue	**3 6**	3 3
Between three and four years overdue	**2.9**	2 6
More than four years overdue	**2.5**	2 3
Other trade receivables·		
Less than one year overdue	**1 3**	1 4
	24.1	22 7

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

	2012 £m	2011 £m
Provision brought forward	**22.7**	21 7
Provision for impairment	**15 3**	16 2
Amounts written off	**(13.9)**	(15 2)
Provision at 31 March	**24.1**	22 7

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

16. Financing

(i) Cash and short term deposits

	2012 £m	2011 £m
Cash at bank and in hand	**27 8**	67 2
Short term deposits	**30.5**	41 4
	58.3	108 6

At 31 March 2012, the Group had available £606 0m (2011 £779 0m) of undrawn committed borrowing facilities

(ii) Borrowings

Short term borrowings:	**2012 £m**	2011 £m
Bank loans	**289.8**	115 9
Bank loans under Senior Holdco facility	**255.3**	-
Other loans	**3.9**	4 3
Loan notes	**17 3**	26 5
Finance leases	**6.9**	17 5
	573.2	164 2

Long term borrowings:	**2012 £m**	2011 £m
Bank loans	**293.2**	259 1
Fixed rate guaranteed bonds due in more than 5 years	**1,803.1**	1,802 2
Index linked guaranteed bonds due in more than 5 years	**963.9**	874 3
Fixed rate US Dollar bonds due in more than 5 years	**283.7**	-
Bank loans under Senior Holdco facility	**-**	492 6
Other loans	**166.5**	146 1
Finance leases	**288.2**	347 8
Amounts owed to associates	**4.6**	4 6
Amounts owed to parent companies	**28.7**	144 1
	3,831 9	4,070 8

Fixed rate guaranteed bonds due in more than 5 years are made up of:

6% guaranteed bonds 2017 £446 7m (2011 £446 1m)
These bonds are repayable in one sum on 19 August 2017 The interest is charged at 6%

6% guaranteed bonds 2019 £273 0m (2011 £272 6m)
These bonds are repayable in one sum on 21 August 2019 Interest is charged at 6%

6 5876% guaranteed bonds 2023 (Exchange bonds) £197 0m (2011 £197 0m)
These bonds are repayable in one sum on 21 February 2023 Interest is charged at 6 5876%

5 375% guaranteed bonds 2023 (Stranded bonds) £3 9m (2011 £3 7m)
These bonds are repayable in one instalment on 21 February 2023 Interest is charged at 5 375%

5 5% guaranteed bonds 2027 (Stranded bonds) £6 2m (2011 £6 2m)
These bonds are repayable in one instalment on 28 May 2027 Interest is charged at 5 5%

6 454% guaranteed bonds 2027 (Exchange bonds) £124 6m (2011 £124 6m)
These bonds are repayable in one sum on 28 May 2027 Interest is charged at 6 454%

6 6011% guaranteed bonds 2031 (Exchange bonds) £262 9m (2011 £262 9m)
These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6 6011%

6 625% guaranteed bonds 2031 (Stranded bonds) £0 6m (2011 £0 6m)
These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6 625%

5 5% guaranteed bonds 2037 £182 0m (2011 £181 8m)
These bonds are repayable in one instalment on 28 May 2037 Interest is charged at 5 5%

6 375% guaranteed bonds 2039 £306 2m (2011 £306 7m)
These bonds are repayable in one sum on 19 August 2039 The interest is charged at 6 375%

Index linked guaranteed bonds due in more than 5 years are made up of:

3 3066% index linked guaranteed bonds 2033 (Exchange bonds) £158 8m (2011 £152 2m)
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

2 718% index linked guaranteed bonds 2039 £305 6m (2011 £294 7m)
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

2 16% *% index linked guaranteed bonds 2041 £49 8m (2011 £nil)*
These bonds are repayable in one instalment on 30 December 2041 The interest is charged at 2 16% 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 £63 0m (2011 £60 1m)
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 £106 2m (2011 £100 6m)
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 £80 0m (2011 £76 2m)
These bonds are repayable in one instalment on 1 February 2054 The interest is charged at 1 758% 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 £108 8m (2011 103 2m)
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 £91 7m (2011 £87 3m)
These bonds are repayable in one instalment on 1 February 2058 The interest is charged at 1 709% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index

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

Fixed rate US Dollar bonds due in more than 5 years
During the year the Group raised $455m of US bonds in tranches with durations of 7, 10, 12 and 15 years, incurring fixed rate interest charges at rates from 3 18% to 5 07%, as follows

- $30m fixed rate bonds expiring in 2018 carrying fixed rate interest at 3 18%, and
- $115m fixed rate bonds expiring in 2021 carrying fixed rate interest at 3 77%

The above bonds were issued on 13 December 2011

- $15m fixed rate bonds expiring in 2019 carrying fixed rate interest at 3 18%,
- $40m fixed rate bonds expiring in 2022 carrying fixed rate interest at 3 77%,
- $75m fixed rate bonds expiring in 2022 carrying fixed rate interest at 5 07%,
- $150m fixed rate bonds expiring in 2023 carrying fixed rate interest at 3 87%, and
- $30m fixed rate bonds expiring in 2024 carrying fixed rate interest at 3 87%

The above bonds were issued on 5 January 2012

The Group hedges the fair value of the Dollar bonds using a series of combined interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping dollar principal repayments into sterling and fixed rate dollar interest payments into sterling floating rate interest payments (see note 22 for mote details)

Bank loans
Bank loans within long term borrowings relates to facilities held with European Investment Bank, repayable as £34 0m (1 - 2 years), £94 6m (2 – 5 years) and £164 6m (more than 5 years)

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 3 219% (2011 3 679%)

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 2012 £m**	Minimum lease payments 2011 £m
No later than 1 year	**40.1**	33 9
Later than 1 year and no later than 5 years	**227.5**	192 3
Later than 5 years	**210.9**	387 8
	478.5	614 0
Less future finance charges	**(183 4)**	(248 7)
Present value of lease obligations	**295.1**	365 3
Amount due for settlement within 12 months	**6.9**	17 5
Amount due for settlement after 12 months	**288.2**	347 8
	295.1	365 3

All lease obligations are denominated in sterling

The weighted average lease term is 13 5 years (2011 14 7 years) For the year ended 31 March 2012 the average effective borrowing rate was 2 4% (2011 1 7%) All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

17. Trade and other payables

Amounts falling due within one year·	2012 £m	2011 £m
Trade payables	**58 6**	56 5
Capital payables	**103.0**	104 7
Deferred grants and contributions on depreciated property, plant and equipment	**2.9**	-
Social security and payroll deductions	**2 6**	2 5
Receipts in advance	**48 9**	50 7
Amounts owed to group companies	**14 7**	20 7
Other payables	**255 8**	213 9
	486.5	449 0
Amounts falling due after more than one year·		
Deferred grants and contributions on depreciated property, plant and equipment	**68.0**	76 9
Other payables	**69.2**	70 8
	137.2	147 7

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

18. Provisions

	£m
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
Provision created in relation to losses sustained in associated undertakings	0 2
Provision created in relation to an onerous contract (note 5)	0 7
Utilised in year	(2 5)
At 31 March 2012	**23 2**

Provisions include £16 0m (2011 £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 and while the expected future losses are uncertain management do not expect any material difference to the amounts provided

In addition provisions includes £6 6m in relation to losses relating to certain associated undertakings (note 13)

19. 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 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
(Credit)/charge to income statement	(40 7)	1 8	-	(0 1)	(114 5)	5 6	(147 9)
Credit to revaluation reserve	-	-	384 8	-	-	-	384 8
Credit to equity	-	-	-	-	(1 5)	(19 0)	(20 5)
At 31 March 2012	**710 6**	**39.2**	**398.1**	**0.8**	**(319 7)**	**(24.5)**	**804 5**

The Group has unrecognised capital losses of £12 8m (2011 £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

20. 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 2012 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 23 6% of pensionable pay thereafter in respect of the majority of members The Group also paid lump sum deficit contributions of £1 0m per month in the year to 31 March 2012

An accrual for unfunded benefits of £5 5m has been included in the Group's financial statements at 31 March 2012 (2011 £4 9m)

(ii) Major assumptions

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

	2012 %	2011 %
Inflation	**3.3**	3 4
Rate of increase in salaries	**4.3**	4 4
Rate of increase to pensions in payment and deferred pensions	**3.3**	3 4
Discount rate for scheme liabilities	**5.1**	5 5
Life expectancy for a male pensioner aged 60 (in years)	**26 6**	26 4
Projected life expectancy at age 60 for male aged 40 (in years)	**28.7**	28 4

(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 Group 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

	2012	
	Market value £m	**Expected long term rate of return** %
Fair value of scheme assets		
Equities	**539.2**	**6.25**
Bonds	**279.6**	**4.25**
Property	**78.7**	**6.25**
Other	**6.5**	**3 50**
Total value of assets	**904.0**	
Present value of scheme liabilities	**(1,003 7)**	
Pension liability	**(99 7)**	

	2011	
	Market value £m	Expected long term rate of return %
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)	

The Group's actual return on the schemes' assets was a gain of £31 3 million (2011 £58 5 million)

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

	2012 £m	2011 £m
Analysis of amount charged to operating costs		
Current service cost	**16.2**	15 6
Past service cost	**0.5**	1 7
Analysis of amount credited to other investment income/finance costs		
Expected return on pension scheme assets	**(56.9)**	(55 1)
Interest on pension scheme liabilities	**49.9**	49 4
Gain on plan curtailments	**-**	(11 0)
Amounts charged to the income statement before taxation	**9.7**	0 6
Analysis of amounts recognised in Group statement of comprehensive income		
Actual return less expected return on pension scheme assets	**(25 6)**	3 4
Experience gains and losses arising on the scheme's liabilities	**-**	22 5
Changes in assumptions underlying the present value of the scheme's liabilities	**(53.9)**	(31 6)
Actuarial loss recognised in the Group statement of comprehensive income	**(79 5)**	(5 7)

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 2013 are expected to be £29 7m for the Group

Actuarial gains and losses are recognised directly in the statement of comprehensive income At 31 March 2012, a cumulative pre-tax loss of £136 0m (2011 £56 5m) had been recorded directly in the statement of comprehensive income

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

	2012 £m	2011 £m
Movement in liabilities during the year		
Liabilities at beginning of year	**(914.9)**	(909 5)
Movement in the year		
- plan participants' contributions	**(0.1)**	(0 1)
- current service cost	**(16.2)**	(15 6)
- interest cost	**(49.9)**	(49 4)
- past service cost	**(0.5)**	(1 7)
- benefits paid	**31.8**	31 1
- actuarial loss	**(53.9)**	(9 1)
- plan curtailment	-	36 3
Movement in unremitted contributions at the year end	-	3 1
Pension liabilities at year end	**(1,003.7)**	(914 9)
Movement in assets during the year		
Assets at beginning of year	**874 9**	842 0
Movement in year		
- plan participants' contributions	**0.1**	0 1
- employer contributions	**29.5**	30 7
- other finance income	**56.9**	55 1
- actuarial (loss)/gain	**(25.6)**	3 4
- benefits paid	**(31.8)**	(31 1)
- plan curtailment	-	(25 3)
Pension assets at year end	**904.0**	874 9

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

(vi) History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	**904.0**	874 9	842 0	634 5	790 6
Present value of defined benefit obligation	**(1,003.7)**	(914 9)	(909 5)	(666 6)	(761 7)
Deficit in the scheme	**(99.7)**	(40 0)	(67 5)	(32 1)	28 9
Experience gains and losses on scheme liabilities	-	22 5	-	5 9	15 3
Experience gains and losses on scheme assets	**(25.6)**	3 4	173 6	(200 0)	(76 3)

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 2012 was £1 2m (2011 £0 8m)

21. Ordinary shares

	Ordinary shares of 1p		Ordinary shares of £1	
	Number	£	Number	£
Issued and fully paid				
At 31 March 2011 and 31 March 2012	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 2011 and 2012, 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	**2012 Number of shares**	2011 Number of shares	Option price	Normal exercise date
Sharesave schemes					
Five year schemes	30 December 2005	-	32,179	588 0p	March to August 2011
	28 December 2006	**6,926**	85,244	741 0p	March to August 2012

22. 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

	2012 Less than one year £m	**2012 More than one year £m**	**2012 Total £m**	2011 Less than one year £m	2011 More than one year £m	2011 Total £m
Financial liabilities						
Interest rate swaps	**-**	**(17.8)**	**(17.8)**	-	(10 3)	(10 3)
Index linked swaps	**-**	**(1,339 3)**	**(1,339.3)**	-	(827 2)	(827 2)
Combined cross currency interest rate swaps	**-**	**(3.4)**	**(3.4)**	-	-	-
Other interest rate swaps	**-**	**(11.3)**	**(11.3)**	-	(4 7)	(4 7)
	-	**(1,371.8)**	**(1,371.8)**	-	(842 2)	(842 2)
Net debt						
Cash and short term deposits	**58 3**	**-**	**58.3**	108 6	-	108 6
Borrowings	**(573.2)**	**(3,831.9)**	**(4,405 1)**	(164 2)	(4,070 8)	(4,235 0)
	(514.9)	**(3,831.9)**	**(4,346 8)**	(55 6)	(4,070 8)	(4,126 4)

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

The Group holds index linked swaps with a mark to market loss of £1,403 7m £1,339 3m is shown as index linked swaps as in the table above, the remaining £64 4m is shown within borrowings in note 16

(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 2012

	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	58 9	49 5	42 3	41 0	39 9	165 4	397 0
Guaranteed bonds	113 1	113 1	113 1	113 1	113 1	2,930 0	3,495 5
US Dollar bonds	11 3	11 3	11 3	11 3	11 3	345 5	402 0
Other interest rate swaps	1 7	1 5	1 3	1 3	1 2	9 7	16 7
Finance lease swaps	2 5	2 0	2 0	2 0	1 8	25 2	35 5
	187 5	177 4	170 0	168 7	167 3	3,475 8	4,346 7
Floating rate							
Index linked guaranteed bonds	19 0	19 0	19 0	19 0	19 0	1,542 8	1,637 8
US Dollar bonds	1 1	1 1	1 1	1 1	1 1	76 7	82 2
Loans from parent companies	29 0	-	-	-	-	-	29 0
Loans from associates/joint ventures	4 6	-	-	-	-	-	4 6
Bank loans	4 9	4 9	5 0	4 9	12 2	127 4	159 3
Bank loans under Senior Holdco facility	265 5	-	-	-	-	-	265 5
Combined cross currency interest rate swaps	8 4	8 4	8 4	8 4	8 4	40 8	82 8
Index linked swaps	21 9	21 9	21 9	21 9	21 9	520 5	630 0
Finance leases	10 6	38 9	44 7	51 3	58 8	203 2	407 5
	365 0	94 2	100 1	106 6	121 4	2,511 4	3,298 7
Financial assets							
Floating rate							
Cash and short term deposits	(58 3)	-	-	-	-	-	(58 3)
Loans to associates/joint ventures	(1 3)	-	-	-	-	-	(1 3)
	(59 6)	-	-	-	-	-	(59 6)

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
Guaranteed bonds	113 1	113 1	113 1	113 1	113 1	3,043 2	3,608 7
Other 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							
Index linked guaranteed bonds	19 0	19 0	19 0	19 0	19 0	1,522 3	1,617 3
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)	-	-	-	-	-	(1 3)
	(109 9)	-	-	-	-	-	(109 9)

(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 receivables include limits on the Group's ability to restrict supply However, this does not apply to all receivables 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

At 31 March, the maximum exposure to credit risk for the Group and company is represented by the carrying amount of each financial asset in the statement of financial position

		Group		Company
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Cash and short term deposits (see note 16)	**58.3**	108 6	**19.3**	33 5
Trade and other receivables (see note 15)	**218.8**	229 9	**0.6**	9 1
Investments	**6.1**	6 1	**3,237.7**	3,250 9

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 2012 the Group had £664 3m of available liquidity (2011 £578 1m) which comprised £58 3m available cash and short term deposits (2011 £63 1m) and £606 0m of undrawn committed borrowing facilities (2011 £515 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	2012 £m	2011 £m
1% increase in RPI leading to a reduction in profit	**(26.2)**	(15 5)
1% decrease in RPI leading to an increase in profit	**26.2**	15 5
1% increase in LIBOR leading to an increase in profit	**1.6**	8 1
1% decrease in LIBOR leading to a decrease in profit	**(1 6)**	(8 1)

(c) Fair values of financial assets and financial liabilities

The followıng table provıdes a comparıson by category of the book values and the faır values of the Group's financıal assets and lıabılıtıes at 31 March

	2012 Book value £m	2012 Fair value £m	2011 Book value £m	2011 Fair value £m
Primary financıal ınstruments financıng the Group's operatıons				
Fınancıal assets				
Cash and short term deposıts	**(58.3)**	**(58.3)**	(108 6)	(108 6)
Fınancıal assets from concessıon arrangements	**(153.1)**	**(153.1)**	(157 8)	(157 8)
Loans to assocıates/joınt ventures	**(1.3)**	**(1 3)**	(1 3)	(1 3)
Fınancıal lıabılıtıes				
Fıxed rate ınterest rate swaps ın respect of finance leases	**17.8**	**17.8**	10 3	10 3
Combıned cross currency ınterest rate faır value swaps	**3.4**	**3.4**	-	-
Other ınterest rate swaps	**11.3**	**11.3**	4 7	4 7
Index lınked swaps	**1,403 7**	**1,403.7**	867 2	867 2
Fıxed rate bank loans	**583.0**	**627 5**	375 0	400 7
Fıxed rate sterlıng bonds	**1,803 1**	**2,152.7**	1,802 2	2,005 6
Index lınked sterlıng bonds	**963.9**	**1,020.1**	873 2	874 9
Fıxed rate US dollar bonds	**283.7**	**283 7**	-	-
Bank loans under Senıor Holdco facılıty	**255.3**	**255.3**	492 6	492 6
Fınance leases	**295.1**	**295.1**	365 3	365 3
Loans from assocıates/joınt ventures	**4.6**	**4 6**	4 6	4 6
Other loans	**152.0**	**152 0**	138 0	138 0

The faır values for all fınancıal ınstruments have been calculated eıther by dıscountıng the expected future cash flows at ınterest rates prevaılıng for a comparable maturıty perıod for each ınstrument or by reference to market values for sımılar ınstruments

All faır value measurements are therefore categorısed as classıfıed as level 1 under IFRS7 'Fınancıal Instruments - Dısclosures' as they are based upon quoted prıces ın actıve markets for sımılar ınstruments There have been no transfers between levels wıthın the faır value hıerarchy wıthın the year

Movements ın the faır value of ındex lınked swaps of £536 5m were recognısed ın the ıncome statement (2011 £12 4m) Of thıs movement a charge of £512 1m (2011 credıt of £10 4m) ıs recognısed ın exceptıonal fınance costs and a charge of £24 4m (2011 £22 8m) ıs recognısed ın fınance costs to accrue for the RPI bullet payment on the swaps Movements ın the faır value of fıxed rate swaps ın respect of fınance leases of £7 5m were charged ın the ıncome statement (2011 credıt of £8 0m) Movement ın faır value of combıned cross currency ınterest rate swaps of £3 4m were recognısed ın the ıncome statement (2011 £nıl) All ınterest rate swaps have maturıty dates ın excess of fıve years

Some ınterest rate swaps ın respect of borrowıngs have break dates at whıch tıme both partıes have an optıon to repay the swap All break dates are ın excess of fıve years

(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 111% and 105% respectively (2011 129% and 115%)

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 28 years The nominal value of the floating interest rate to fixed interest rate swap is £45 0m 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 2012 was a loss of £1,403 7m (2011 £867 2m loss) The fair value movement in the year has been recognised in the income statement as an exceptional item because the criteria for hedge accounting were not met

The fair value of the floating interest rate to fixed interest rate swap instrument was a loss of £11 3m (2011 £4 7m) The fair value movement in the year has been charged directly to reserves as hedging criteria were met

The fair value of the combined cross currency interest rate swap instrument was a loss of £3 4m (2011 £nil) The fair value movement in the year has been recognised in the income statement as an exceptional item because the criteria for hedge accounting were not 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 31 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 £61 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 does not meet the criteria to classify for hedge accounting The fair value of the hedging instrument at 31 March 2012 was a £17 8m loss (2011 £10 3m loss)

The cash flow hedge was assessed to be ineffective at 31 March 2012 and a charge of £5 6m (2011 £5 9m income) relating to the hedging instrument was included in the income statement (net of deferred tax)

Fair value hedges

Combined cross currency interest rate swap contracts exchanging fixed rate interest for floating rate interest on the Group's US Dollar bonds are designated and effective as fair value hedges in respect of interest rates and foreign currency risk During the year, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, and as a result the carrying amount of the bonds was adjusted by £0 8m which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement

Foreign currency risk management

The Group has a number of long term interest bearing liabilities denominated in foreign currencies, consequently exposures to exchange rate fluctuations arise Exchange rate exposures are managed within approved policy parameters utilising combined cross currency interest rate swaps

23. 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

	2012		2011	
	Options	**Weighted average exercise price £**	Options	Weighted average exercise price £
Outstanding at the beginning of the year	**117,423**	**6.99**	327,981	6 20
Lapsed during the year	**(1,528)**	**6.86**	(11,057)	6 62
Exercised during the year	**(108,969)**	**6.97**	(199,501)	5 71
Outstanding at the end of the year	**6,926**	**7.41**	117,423	6 99
Of which exercisable at the end of the year	**6,926**	**7.41**	32,179	5 88

The weighted average share price at the date of exercise for share options exercised during the year was £10 90 (2011 £10 90)

The options outstanding at 31 March 2012 had a weighted average exercise price of £7 41 (2011 £6 99), and a weighted average remaining contractual life of less than one year (2011 1 0 year)

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 2012 or 2011 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

24. Additional cash flow information

Analysis of movement in net debt

	At 31 March 2010 £m	Non cash movements	Cash movements £m	At 31 March 2011 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2012 £m**
Cash and cash equivalents	248 9	-	(140 3)	108 6	**-**	**(50 3)**	**58 3**
Debt due within one year	(205 9)	-	59 2	(146 7)	**-**	**(164 3)**	**(311.0)**
Finance leases due within one year	(12 5)	-	(5 0)	(17 5)	**-**	**10.6**	**(6.9)**
	(218 4)	-	54 2	(164 2)	**-**	**(153.7)**	**(317.9)**
Debt due after one year	(3,799 5)	(74 7)	151 2	(3,723 0)	**(108 1)**	**32.1**	**(3,799.0)**
Finance leases due after one year	(368 5)	-	20 7	(347 8)	**-**	**59.6**	**(288.2)**
	(4,168 0)	(74 7)	171 9	(4,070 8)	**(108 1)**	**91.7**	**(4,087 2)**
Net debt relating to continuing activities	(4,137 5)	(74 7)	85 8	(4,126 4)	**(108.1)**	**(112.3)**	**(4,346 8)**
Total net debt	(4,137 5)	(74 7)	85 8	(4,126 4)	**(108 1)**	**(112.3)**	**(4,346 8)**

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

Cash generated by contınuıng operatıons as noted ın the Group cashflow statement can be derıved as follows

	2012 £m	2011 £m
(Loss)/profit from contınuıng operatıons before taxatıon	**(510.5)**	59 8
Share of associates' and joint ventures' profit after tax	**(0.5)**	(0 2)
Investment ıncome	**(72.5)**	(72 7)
Fınance costs	**388.6**	379 3
Exceptional finance costs/(ıncome) (non-cash)	**522.3**	(18 4)
Depreciation and amortisation of capital grants	**210.3**	205 9
(Increase)/decrease ın inventories	**(0 2)**	4 0
Decrease ın trade and other receıvables	**12.1**	4 7
(Decrease) ın trade and other payables	**(20 3)**	(24 7)
Pensıon contributions ın excess of operatıng costs	**(12.8)**	(24 4)
Movements ın provisions	**1.1**	10 5
Other movements	**0.5**	1 2
Cash generated by continuing operations	**518.1**	525 0

25. Commitments

	2012 £m	2011 £m
Contracts placed at 31 March	**267 6**	343 8

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

	2012 Land and buildings £m	2012 Other £m	2011 Land and buildings £m	2011 Other £m
No later than 1 year	**0.6**	**2.0**	0 2	1 9
Later than 1 year and no later than 5 years	**4.9**	**3.2**	4 2	3 6
Later than 5 years	**3.5**	-	4 2	-
	9.0	**5.2**	8 6	5 5

26. 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 13

	Sales to related parties 2012 £m	**Loans to/(from) related parties 2012 £m**	Sales to related parties 2011 £m	Loans to/(from) related parties 2011 £m
Joint ventures				
Aberdeen Environmental Services (Holdings) Limited	**6 2**	**(1.3)**	5 4	(1 3)
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 Developments Limited	-	**0.3**	-	0 3
KeyLand Gregory Limited	-	**0.8**	-	0 8
Aire Valley Land LLP	-	**4 0**	-	4 0
	6.2	**3 4**	5 4	3 4

The loans carry market rates of interest Total interest received on loans to associated undertakings and joint ventures was £nil (2011 £nil) All outstanding balances are unsecured Sales and purchases between related parties are made at normal market prices During the year ended 31 March 2012 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2011 £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)

	2012 £m	2011 £m
Short term benefits	**2 7**	2 6
Post-employment benefits	**0 4**	0 3
Termination payments	**0.2**	0 3
	3.3	3 2

27. Post balance sheet event

Durıng June 2012, the amount outstandıng on the Kelda Holdco Lımıted loan under the Senıor Holdco Facılıty Agreement was refınanced The current debt ın Kelda Holdco Lımıted of £257 0m was refınanced by way of (ı) a three year loan of £150 0m and (ıı) a fıve year loan of £110 0m The new debt of £260 0m ıs now held by a newly formed company, Kelda Fınance (No 2) Lımıted whıch ıs now the ımmedıate parent company of Yorkshıre Water Servıces Holdıngs Lımıted and a subsıdıary of Kelda Holdco Lımıted

28. Ultimate controlling party

The company's ımmedıate parent company ıs Kelda Junıor Holdco Lımıted The company's ultımate parent company and controllıng party ıs Kelda Holdıngs Lımıted, a company regıstered ın Jersey

Kelda Eurobond Co Lımıted, a company regıstered ın England and Wales, ıs the largest UK Group to consolıdate these fınancıal statements Kelda Holdco Lımıted ıs the smallest UK group to consolıdate these fınancıal statements

Copıes of the consolıdated fınancıal statements may be obtaıned from the Company Secretary, Kelda Eurobond Co Lımıted, Western House, Halıfax Road, Bradford BD6 2SZ

Group companies

as at 31 March 2012

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%
Dalriada 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	Cayman Islands	Ordinary	100%
Yorkshire Water Services Bradford Finance Limited	Cayman Islands	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'	50%
	Scotland	Ordinary 'C'	Nil

Company balance sheet

as at 31 March 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Investments	3	**3,237 7**	3,250 9
Current assets			
Debtors	4	**0 6**	9 1
Cash at bank and in hand		**19.3**	33 5
		19.9	42 6
Creditors amounts falling due within one year	5	**(30.8)**	(48 9)
Short term borrowings	6	**(255 3)**	-
Net current liabilities		**(266.2)**	(6 3)
Total assets less current liabilities		**2,971 5**	3,244 6
Creditors amounts falling due after more than one year	5	**(1,367 2)**	(1,137 6)
Long term borrowings	6	**-**	(492 6)
Net assets		**1,604 3**	1,614 4
Capital and reserves			
Called up share capital	7	**1,473.5**	1,473 5
Profit and loss reserve	7	**130.8**	140 9
Total shareholders' funds		**1,604.3**	1,614 4

The financial statements on pages 86 to 92 were approved by the board of directors on 11 July 2012 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

The accounting policies set out below have been consistently applied to all years presented, unless otherwise stated

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

Cash flow statement
The Company is a wholly owned subsidiary company of a group headed by Kelda Eurobond Co Limited, and is included in the consolidated financial statements of that company, which are publically available Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'

Pensions
The Company's employees participate in a number of Group defined benefit schemes as described in note 20 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 20 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 £10 1m (2011 £25 7m loss) 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 11 July 2012

3. Investments

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total investments in Group undertakings £m
Cost			
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
Repayment of loans	(10 9)	(2 3)	(13 2)
At 31 March 2012	**3,053 5**	**184.2**	**3,237 7**

A list of the major subsidiaries of the Company can be found on page 85

4. Debtors

	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	**0.6**	9 1
	0.6	9 1

5. Creditors

	2012 £m	2011 £m
Amounts falling due within one year·		
Amounts owed to group undertakings	**10 4**	20 1
Other creditors	**20.4**	28 8
	30.8	48 9
Amounts falling due after one year.		
Amounts owed to group undertakings	**1,367.2**	1,137 6
	1,367.2	1,137 6

Amounts owed to group undertakings include £1,289 4m owed to Yorkshire Water, £62 2m owed to Kelda Group Limited and £15 6m owed to parent companies These loans are repayable on demand Interest is charged at LIBOR +2 0% margin

6. Borrowings

Borrowings of £255 3m held within short term borrowings (2011 £492 6m held within long term borrowings) relates to external bank loans under the Senior Holdco Facility Agreement (SHFA) See note 16 for disclosure in the Group financial statements Weighted average interest rates associated with the loans are 2 9701% These loans were refinanced in June 2012 (note 9)

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 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
Loss for the financial year	-	(10 1)	(10 1)
Shareholder's funds at 31 March 2012	**1,473.5**	**130 8**	**1,604.3**

8. Other information

The Company had no employees at 31 March 2012 (2011 none)

Details of directors' emoluments are set out in the directors and employees note on page 51 No elements related specifically to 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, as it is a wholly owned subsidiary of Kelda Eurobond Co Limited, whose accounts are publically available

Auditors' remuneration has been borne by Kelda Group Limited

9. Post balance sheet event

During June 2012, the amount outstanding on the Kelda Holdco Limited loan under the Senior Holdco Facility Agreement was refinanced The current debt in Kelda Holdco Limited of £257 0m was refinanced by way of (i) a three year loan of £150 0m and (ii) a five year loan of £110 0m The new debt of £260 0m is now held by a newly formed company, Kelda Finance (No 2) Limited which is now the immediate parent company of Yorkshire Water Services Holdings Limited and a subsidiary of Kelda Holdco Limited

10. 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 This is the smallest UK group to consolidate these financial statements

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

We have audited the parent company financial statements of Kelda Holdco Limited for the year ended 31 March 2012 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 Statement of Directors' Responsibilities 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 2012,
- 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 financial statements*

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 2012.

R Bunter

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
11 July 2012