

Registered Number 06433799

KELDA HOLDCO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 MARCH 2010**

FRIDAY



A07 29/10/2010 168
COMPANIES HOUSE

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

Contents

Business Review

Our Business	1
Business Strategy	2
Operational Performance	3
Financial Performance	9
Looking Forward	12
Principal Risks and Uncertainties	12
Appendix - KPI Glossary of Terms	16

Directors' Report for the year ended 31 March 2010	18
Corporate Governance Report for the year ended 31 March 2010	23
Statement of Directors' Responsibilities for the year ended 31 March 2010	24
Independent auditors' report to the members of Kelda Holdco Limited	25
Financial Statements	27
Group Income Statement	27
Group Statement of Comprehensive Income	27
Group Balance Sheet	28
Group Statement of Changes in Equity	29
Group Cash Flow statement	30
Notes to the Group Financial Statements	31
Company Balance Sheet	80
Notes to the Company Financial Statements	81

Business Review

OUR BUSINESS

Saltire Limited purchased the entire share capital of Kelda Group plc in February 2008 and subsequently transferred ownership to Kelda Holdco Limited. Kelda Holdco Limited and its subsidiaries, joint ventures and associates (the Group) is made up of several businesses

Yorkshire Water

Yorkshire Water Services Limited (YW) is the principal UK subsidiary of the Group, providing water and waste water services to more than 4.9m people and 130,000 businesses

Every day, YW supplies more than 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

- To be clearly the best water company in the UK
- To focus on striking the right balance between service, compliance, value, people, partners and society

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 operations during the year 2009/10 in England, Scotland, Wales and Northern Ireland

Business strategy

- To be the best in UK water contract operations
- To maximise value from existing operations
- To be alert to potential growth opportunities

Loop

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

KeyLand

KeyLand Developments Limited (KeyLand) is responsible for managing, developing and disposing of the Group's surplus property assets, either on its own or in partnership with third party organisations. The results of KeyLand include the Group's share of its associates and joint ventures

Business strategy

- To maximise the value of the Group's surplus property portfolio

Business Review (continued)

BUSINESS STRATEGY

Value

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

Our customers

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

Our people

The Group employs 3,358 people. Our aim is to create a great place to work, with zero accidents, a good work-life balance and the opportunity to make a real difference. We want to attract and retain the best people, with performance and contribution recognised and rewarded and success celebrated as part of our culture.

Environmental leadership

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

Society

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

Service partners

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

Business Review (continued)

OPERATIONAL PERFORMANCE

Yorkshire Water Services Limited

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

The conclusion of the PR09 price review gave the green light for a major restructuring of the business to ensure YW remains fit for the future and can deliver a step change in its financial, service and environmental performance over the next five years

Operational excellence remains the key to unlocking new opportunities - opportunities for YW's people, opportunities for its customers and stakeholders, opportunities for its contract partners and opportunities for it to grow our influence and ultimately its business

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

Key performance indicators

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

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

Value

The company's financial performance is described in detail on page 9

YW's aim is to be clearly Ofwat's frontier company for financial performance and to outperform its targets

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

The securitisation provides lenders with a strong package of protections, thus enabling YW to increase its borrowings to facilitate a more cost-effective capital structure. In the medium term, this will enable the company's net debt to regulatory capital value (RCV) ratio to increase from its current level of 65% to 85%

The strong operational performance of YW, coupled with the strength and clarity of a new covenant package, enabled the company to raise £650m of new funding, with its bond issues over-subscribed

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

Business Review (continued)

Throughout the PR09 process YW sought to strike the right balance for its customers, its investors and the environment

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

Customer service

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

YW was ranked third in Ofwat's Overall Performance Assessment (OPA) for 2008/09 which benchmarks its performance against other water and sewerage companies across the UK. YW has now consistently been ranked in the top four since 2000/01

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

YW also achieved maximum points for its performance relating to Category 1 and 2 water and waste water pollution incidents.

Unfortunately YW dropped from first to second regarding the number of properties experiencing low water pressure, which ended the company's eight year run at the top of the industry.

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

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

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

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

Environmental performance and compliance

YW's aim is to work with its partners and regulators to achieve 100% compliance with its legal and regulatory targets.

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

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

Business Review (continued)

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

Social impact

YW's aspiration is to ensure that society recognises the important role it has to play in local communities and people's lives.

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

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

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

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

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

Employees

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

In particular, great emphasis was placed on managing the resource implications arising from the forthcoming completion of the AMP4 capital programme and the need to prepare for AMP5, particularly as YW proposes to make changes to the way it manages its service and capital contracts.

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

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

Business Review (continued)

Partners

YW's aspiration is to work with its partners to deliver a better service, increased efficiency and healthy profits at all, while ensuring the safety of the company's people and customers

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

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

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

As well as selecting the company's contract partners, YW also re-tendered the contracts for its technical and commercial consultants and modelling work.

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

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

UK Service Operations

UK Service Operations comprises KWS, Loop and Safe-Move. Operating profit for the UK Service Operations group and its associated undertakings for the year to 31 March 2010 was £13.7m (71 weeks ended 31 March 2009: £9.5m), reflecting the continuing strong operating performances of existing businesses.

Kelda Water Services

KWS is a leading UK water and waste water contract operations company. KWS continues to grow in its core markets, providing water and waste water operations and maintenance under long term contracts. In the year, KWS had turnover of £159.0m and operating profit of £12.3m (71 weeks ended 31 March 2009: £180.1m turnover and £8.7m operating profit).

KWS currently operates across the UK through its subsidiaries and associated undertakings.

In 2009, KWS completed its plan to increase its shareholding in three of its existing businesses.

As a result of the share purchase, Brey Services Limited and Dalriada Services Limited became wholly-owned subsidiaries of KWS. The shareholding in Aberdeen Environmental Services Limited increased to 50% and since the year end has become a wholly-owned subsidiary.

Business Review (continued)

The acquisition provided an opportunity to merge Brey Services Limited with Delta Water Services Limited to create a new single business called Kelda Water Services (Defence) Limited. This new organisation gives KWS the opportunity to deliver the best possible service to the Ministry of Defence (MoD).

In March, Dwr Cymru (Welsh Water) announced its decision to insource all the activities covered by Kelda Water Services (Wales)' operations and maintenance contract, with a completion date of 1 May 2010.

This decision meant that employees working on the contract transferred to Dwr Cymru under the Transfer of Undertakings Protection of Employment (TUPE) regulations with effect from the same date.

Kelda Water Services (Wales) had operated Dwr Cymru's waste water assets for a period of five years and helped the company to significantly improve the quality of service to its customers and cut its operating costs by more than any other company in the regulated water industry in England and Wales since 2001.

Loop

During 2009/10 Loop outperformed its financial targets with YW as well as delivering a number of significant service improvements.

Customer satisfaction scores continued to improve, with Loop achieving its highest ever score of 4.78 in the first half of the year.

The introduction of a new bill design was well received by customers, helping to reduce customer contacts and complaints at the same time as reducing printing costs.

The continuing economic downturn meant that income collection remained challenging, however, Loop's income generation team continued to bring in additional revenue and outperformed its £1.2 million target for the year.

The situation regarding customer arrears continued to worsen, prompting a review of the company's hardship scheme and increased collections activity, including extended opening hours for the income generation team.

Safe-Move

Safe-Move is a non-regulated business which provides search information to solicitors and conveyancers, including information covering drainage and water services. Operating and financial performance remains in line with expectation.

KeyLand Developments

During 2009/10, KeyLand and YW conducted a joint review of the land disposal activities within the Group. The review concluded that KeyLand, in its current form and composition, remained best placed to take a commercial view and focus on property disposals.

The property market improved slightly over the year but with pressure on rents and increased yields caused by reduced availability of finance.

Recent successes included the letting of retail space at Foss Island in York, the sale of land to a supermarket chain in Harehills, Leeds and increased occupancy of Aquarius House on the Midpoint business park in Thornbury, Bradford.

Business Review *(continued)*

The Aire Valley in Leeds continues to be the main ongoing focus of joint venture activity, both for existing joint venture landholdings and potential future transfers of surplus Group assets

Business Review (continued)

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2010	71 weeks ended 31 March 2009
Operating profit before exceptional items (£m)	381.3	392.4
EBITDA (£m)	580.8	628.2

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

Operating results for the year

The results for the year show an operating profit before exceptional items of £381.3m (71 weeks ended 31 March 2009 £392.4m). Of this, £400.2m (71 weeks ended 31 March 2009 £400.1m) is generated by YW, the main trading subsidiary. Note 3 to the financial statements shows the profit split into segments.

Exceptional items for the year

Exceptional items of £397.4m comprise the following

	Year ended 31 March 2010	71 weeks ended 31 March 2009
	£m	£m
Included in operating costs:		
Costs incurred on corporate transactions	-	(17.2)
Costs associated with whole business securitisation	-	(15.9)
Restructuring costs	(2.2)	(4.7)
Insurance proceeds received in relation to capital and operations	-	33.0
Write off book value of associated assets	-	(15.5)
Negative goodwill on acquisition	9.4	-
	7.2	(20.3)
Included in finance costs:		
Movement on fair value of index linked swaps	(423.8)	(433.5)

Negative goodwill arose during the year of £9.4m on the acquisition of Brey Services Limited and Brey Utilities Limited. Under IFRS this has been credited immediately to the income statement as an exceptional credit. See note 11.

The fair value movement is a result of index linked swaps which hedge YW's exposure to movements in the Retail Price Index (RPI) against its interest based on London Inter Bank Offer Rate (LIBOR) linked borrowings. They are of an average 38 years in length (being the remaining weighted average life of the swaps) and total £1.3bn. The swaps are held in YW and hedge against YW borrowings.

Under IFRS, these swaps must be valued at each reporting date at fair value, which at 31 March 2010 resulted in a £854.8m loss (31 March 2009 £433.5m). Of the year on year movement of £421.3m, £2.5m credit of RPI accretion has been recognised within finance costs and £423.8m has been recognised as an exceptional finance cost. This has been

Business Review (continued)

included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met. However, this loss is unrealised and may reverse in the future.

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

Other prior year exceptional items represent advisers' costs incurred by Kelda Group plc (now Limited) on its acquisition by Saltaire Water Limited (£17.2m), costs incurred on setting up the whole business securitisation (£15.9m), restructuring costs (£4.7m) and insurance proceeds and associated costs relating to flood damaged assets (£17.5m).

Capital structure

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

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

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

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

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.

Business Review (continued)

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

Business Review (continued)

LOOKING FORWARD

Yorkshire Water

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

We classify principal risks in six categories

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

Changes to the regulatory environment

Transfer of private sewers

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

Revised Bathing Water Directive

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

Service Incentive Mechanism

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

Changes in legislation

Environmental legislation

Government and European policy is increasingly focused on the environmental agenda, which creates both opportunities and challenges for YW. New discharge standards continue to be a possibility, although the recent European Court decision to not designate the Humber Estuary as a sensitive zone means that new large scale European legislation

Business Review (continued)

is not imminent. However, there are a number of directives in the pipeline, focusing on drinking water standards and levels of service.

A new Government

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

Flood and Water Management Act

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

Climatic changes

Carbon Reduction

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

Natural England

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

Water consumption

Over the past few years local businesses and some domestic customers have made increasing efforts to manage and reduce their water consumption. Although the key driver of annual consumption remains weather patterns (e.g. hot, dry summers and cold winters) water conservation is increasingly the norm and may place further downward pressure on water consumption and YW's income.

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

Changes in technology

E-communications

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

Over the last five years we have seen a 20% year on year increase in YW website usage, with customers paying bills and submitting meter readings online. There is also a rising demand from customers to access media online.

Business Review (continued)

Telemetry

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

Social influences

Affordability

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

Public confidence

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

The skills agenda

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

Bad debt

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

Supplier markets

A global economy

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

Non-regulated businesses

Kelda Water Services

KWS has a focused strategy based on water and waste water activities in the UK. Unlike YW, 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 RPI, the financial marketplace and its impact on debt availability. The major environmental influence is climate change.

Loop Customer Management

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

Non-recovery of debt is a significant risk to YW and may cause the company's profitability to suffer.

Business Review (continued)

Loop also provides a contact centre service to YW. Therefore catastrophic failures of service by YW can also have an impact on Loop's operational call volumes. This may impact on YW's performance in Ofwat's new service incentive mechanism (SIM), which benchmarks and rewards companies' customer service.

KeyLand

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

The principal risk to KeyLand therefore is fluctuating market conditions, which can affect the value of properties or land.

Other risks include changes to planning regulations, or delays in the planning process.

Business Review - Appendix

KPI Glossary of Terms

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

YW recognises the value of listening to customers in order to deliver improvements that not only meet, but surpass expectations. Customer satisfaction is monitored on a regular basis using a combination of random telephone surveys and event-based questionnaires.

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

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

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

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

Water quality

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

Business Review - Appendix (continued)

KPI Glossary of Terms

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

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

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

Waste water treatment works compliance

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

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

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

Reportable and notifiable accidents

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

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

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

Directors' Report

for the year ended 31 March 2010

The directors present their report and the audited financial statements for the Group for the year ended 31 March 2010. Prior period comparatives are for the 71 week period ending 31 March 2009.

Financial results for the year

The loss for the year after tax was £186.7m (71 weeks ended 31 March 2009: £344.7m). The Company did not pay any dividends during the year to its parent company (71 weeks ended 31 March 2009: £5.0m).

Business review

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

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

Principal activities

The directors' report should be read in conjunction with the business review. The principal activities of the Group are the supply of clean water and the treatment and disposal of waste water. YW, 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 YW.

Directors

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

Allison Bainbridge	(resigned 31 March 2010)
Richard Flint	(appointed 1 April 2010)
Kevin Whiteman	
Stuart McFarlane	

Research and development

The Group undertakes a major programme of research in pursuit of improvements in service and operating efficiency. During the year, £4.0m was committed to research and development including £3.2m on fixed assets.

Fixed assets

The directors are aware that the value of certain land and buildings in the balance sheet may not be representative of its market value. However, a substantial proportion of land and buildings comprises specialised operational properties and structures for which there is no ready market and it is not therefore practicable to provide a full valuation.

Directors' Report (continued)

for the year ended 31 March 2010

Valuation of assets

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

Further details are provided in note 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 non-specialised land and buildings in the financial statements. These assets will be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews

Payment of suppliers

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

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the period as the amount owed to trade creditors at the period end bears to the amounts invoiced by suppliers during the period) is 43 days (2009 28 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 a potential source of innovation and change. Internal consultation and communication processes provide the key to this involvement and play a major part in achieving the Company's vision and being a great place to work

The Group's communications strategy is based on a 'face to face first' approach and all messages are delivered through 'two-way' channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and the directors. The internal magazine *Connections* is distributed throughout the Group and aims to provide business news through the eyes of the company's employees. KWS publishes their magazine *Accent* on a quarterly basis which aims to provide news and features on their businesses

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

The Group promotes freedom of association, principally through its diversity strategy. The company's equality and diversity, 'open to all', policy covers gender, marital status, parental status, sexual orientation, race, colour, ethnic or national origin, disability, age, religion or belief and trade union membership. YW has previously been recognised by winning the Personnel Today award for Diversity in the Workplace and has also featured

Directors' Report (continued)

for the year ended 31 March 2010

as a case study on a website created by the London Development Agency for businesses in their region. A series of events has helped raise awareness about diversity including, part-time working, gender, disability, stereotypes, mental health and religious beliefs which were welcomed by managers. The Group has an active approach to keeping employees who become disabled in employment, and its commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK Employment Service.

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

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

The Group places value and emphasis on developing skills and behaviours to meet the development needs of its people, with focus on developing safety, technical, behavioural and leadership capability. It is the Company's belief that everyone can demonstrate leadership skills. This commitment is demonstrated through a focus on leadership development for managers and senior managers across the business and the Group'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 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 in the businesses. These goals include a combination of reductions of accidents and working time lost as a result of accidents, training delivery, internal safety audits and health promotion and surveillance programmes.

Senior management awareness and active employee involvement in health and safety is fundamental to company success. A Think Safety First programme was launched in YW during 2006 and is further developed each year. This programme includes projects for sharing personal accident experiences, promoting key safety messages, managers

Directors' Report (continued)

for the year ended 31 March 2010

leading by example, rewarding and recognising colleagues and implementing a behavioural safety coaching process

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

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

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 £0.6m were made during the year. No political donations were made.

Auditors

The Group policy to safeguard the independence and objectivity of the external auditors is included in the corporate governance section on page 23.

Financial instruments

Details are provided in the financial statements section under note 22.

Likely future developments

Future events are dealt with on page 12 in the "Looking Forward" section.

Directors' Report *(continued)*

for the year ended 31 March 2010

Annual general meeting

The Company has dispensed with the requirement to hold an annual general meeting

Going concern

After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' statement as to disclosure of information to auditors

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

Independent auditors

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

By order of the Board



Kevin Whiteman
Director
14 July 2010

Company secretary
Stuart McFarlane

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

Corporate Governance Report

for the year ended 31 March 2010

Corporate governance

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

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

The board of directors

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

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

At the end of the year, the board comprised three 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 company and this has been in place for the period under review and up to the date of approval of the report and accounts. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. During the period, 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.

Statement of directors' responsibility

for the year ended 31 March 2010

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,
- 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD



Kevin Whiteman
Director
14 July 2010

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 2010 which comprise the Group income statement, Group statement of comprehensive income, Group balance sheet, Group statement of changes in equity, Group cash flow statement, the accounting policies 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 Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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.

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 2010 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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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 2010



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

Group income statement

for the year ended 31 March 2010

			71 weeks ended 31 March 2009 £m
	Note	2010 £m	
Group revenue	3	986.5	1,055 6
Operating costs	4	(605.2)	(663 2)
Exceptional items	5	7.2	(20 3)
Total operating costs		(598.0)	(683 5)
Group operating profit before share of associates and joint ventures		388.5	372 1
Share of associates' and joint ventures' loss after tax	13	(2.7)	(2 4)
Group operating profit from continuing operations	3	385.8	369 7
Investment income	7	88.5	133 2
Finance costs	7	(311.5)	(341 4)
Exceptional finance costs	5	(423.8)	(433 5)
Total finance costs		(735.3)	(774 9)
Loss from continuing operations before taxation		(261.0)	(272 0)
Tax credit/ (charge)	8	74.3	(72 7)
Loss for the year/ (period) attributable to equity shareholders		(186.7)	(344 7)

Group statement of comprehensive income

for the year ended 31 March 2010

			71 weeks ended 31 March 2009 £m
	Note	2010 £m	
Loss for the year/ (period)		(186.7)	(344 7)
Other comprehensive income:			
Gains/ (losses) on hedges taken to equity	-	6.2	(25 8)
Actuarial losses in respect of defined benefit pension	20	(37.3)	(68 2)
Tax on items taken directly to equity	8	8.7	26 3
Other		-	0 7
Other comprehensive income for the year/ (period)		(22.4)	(67 0)
Total comprehensive income for the year/ (period)		(209.1)	(411 7)

Group balance sheet

as at 31 March 2010

	Note	2010 £m	2009 £m
Non-current assets			
Intangible assets - goodwill	11	1,812.8	1,799.2
Property, plant and equipment	12	5,038.3	4,829.6
Investments in associated undertakings and joint ventures	13	2.7	0.4
Loans to associated undertakings and joint ventures	13	1.8	24.4
		6,855.6	6,653.6
Current assets			
Inventories	14	5.5	1.0
Trade and other receivables	15	224.2	184.3
Cash and cash equivalents	16	26.9	6.3
Short term deposits	16	222.0	131.3
Assets included in disposal groups held for sale	9	9.0	7.3
		487.6	330.2
Total assets		7,343.2	6,983.8
Current liabilities			
Trade and other payables	17	(308.8)	(302.3)
Financial liabilities	22	-	(0.5)
Tax liabilities		(42.1)	(31.4)
Short-term borrowings	16	(218.4)	(31.6)
Liabilities included in disposal groups held for sale	9	(18.1)	(20.3)
		(587.4)	(386.1)
Non-current liabilities			
Long-term borrowings	16	(4,168.0)	(4,154.0)
Long-term payables	17	(69.8)	(38.3)
Financial liabilities	22	(855.9)	(458.5)
Deferred grants and contributions on depreciated assets	17	(73.4)	(75.6)
Retirement benefits deficit	20	(67.5)	(34.0)
Provisions	18	(6.1)	(0.5)
Deferred tax liabilities	19	(623.0)	(722.3)
		(5,863.7)	(5,483.2)
Total liabilities		(6,451.1)	(5,869.3)
Net assets		892.1	1,114.5
Capital and reserves attributable to equity holders of the company			
Issued share capital	21	1,473.5	1,473.5
Hedging reserve		(13.2)	(17.6)
Revaluation reserve		37.5	52.8
Share-based payment reserve		5.1	4.8
Retained earnings - deficit		(610.8)	(399.0)
Total equity attributable to equity holders of the parent		892.1	1,114.5

Approved by the board of directors on 14 July 2010 and signed on their behalf by



Kevin Whiteman
Director

Group statement of changes in equity

as at 31 March 2010

	Issued capital £m	Investment in own shares £m	Revaluation reserve £m	Hedging reserve £m	Share- based payment reserve £m	Retained earnings £m	Total £m
On incorporation	1,473.5	-	-	-	-	-	1,473.5
On acquisition of subsidiary	-	(0.6)	-	1.0	4.1	-	4.5
Loss for the period	-	-	-	-	-	(344.7)	(344.7)
Dividends approved and paid	-	-	-	-	-	(5.0)	(5.0)
Treasury shares disposed of through vesting of share schemes	-	0.6	-	-	-	-	0.6
Share based payment charge	-	-	-	-	0.7	-	0.7
Revaluation surplus	-	-	52.8	-	-	-	52.8
Other movements	-	-	-	-	-	(0.9)	(0.9)
Total included in the Group statement of comprehensive income	-	-	-	(18.6)	-	(48.4)	(67.0)
At 31 March 2009	1,473.5	-	52.8	(17.6)	4.8	(399.0)	1,114.5
Loss for the year	-	-	-	-	-	(186.7)	(186.7)
Share based payment charge	-	-	-	-	0.3	-	0.3
Credit to income statement for surplus depreciation	-	-	(0.6)	-	-	0.6	-
Other movements	-	-	(14.7)	-	-	1.1	(13.6)
Total included in Group statement of comprehensive income	-	-	-	4.4	-	(26.8)	(22.4)
At 31 March 2010	1,473.5	-	37.5	(13.2)	5.1	(610.8)	892.1

Group cash flow statement

for the year ended 31 March 2010

	Note	2010 £m	71 weeks ended 31 March 2009 £m
Cash flows from operating activities	24	565.9	675 7
Income taxes paid		(37.3)	(45 3)
Interest paid		(280.6)	(316 8)
Net cash generated from operating activities		248.0	313 6
Cash flows from investing activities			
Acquisition of subsidiaries	11	(16.8)	(3,063 5)
Acquisition of associate	13	(0 5)	-
Dividends received from associates		1.4	-
Interest received		88.5	82 6
Loans to associates and joint ventures		0.9	(3 8)
Proceeds on disposals of property, plant and equipment		5 6	0 2
Purchases of property, plant and equipment		(260.8)	(368 3)
Capital grants and contributions		10 4	5 9
Net cash used in investing activities		(171.3)	(3,346 9)
Cash flows from financing activities			
Dividends paid	10	-	(5 0)
Borrowings raised (net of fees)		146.0	1,206 1
Share capital on incorporation	21	-	1,473 5
Initial loan from parent company		-	426 5
Repayment in loan to parent company		(96.8)	(50 6)
Net proceeds from other borrowings		-	126 1
Repayment of obligations under finance leases and hire purchase agreements		(14 6)	(5 7)
Net cash used in financing activities		34.6	3,170 9
Net increase in cash and cash equivalents		111.3	137 6
Cash and cash equivalents at the beginning of the period		137.6	-
Cash and cash equivalents at the end of the year/ (period)	16	248.9	137 6

Notes to the financial statements

for the year ended 31 March 2010

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2010 were authorised for issue by the board of directors on 14 July 2010 and the balance sheet was signed on the board's behalf by Kevin Whiteman, Director. Kelda Holdco Limited is a limited company incorporated and domiciled in England and Wales.

2. Accounting policies

(A) Basis of preparation

Basis of accounting

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and Companies' Act 2006 as they apply to the financial statements of the Group for the year ended 31 March 2010.

The 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 which have been measured at fair value, disposal groups held for sale which have been measured at the lower of fair value less cost to sell and their carrying amounts prior to the decision to treat them as held for sale and pension scheme liabilities that are measured using actuarial valuations.

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.

(B) Accounting policies

A summary of the principal accounting policies which, unless otherwise stated, have been consistently applied throughout the period, is set out below.

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 period and monetary assets and liabilities are dealt with in the income statement.

On consolidation, the income statements of the overseas subsidiaries are translated at the average exchange rates for the period 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

Notes to the financial statements (continued)

for the year ended 31 March 2010

investment in a foreign operation are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement

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

Revenue

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

Revenue is not recognised until the service has been provided to the customer. Revenue relates to charges due in the period, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the period end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

Net operating costs

Net operating costs include the following:

Dividends receivable

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

Rental income

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

Other operating income

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

Investment income

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

Dividends payable

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

Research and development expenditure

Research expenditure is written off in the income statement in the period 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 launch.

Notes to the financial statements (continued)

for the year ended 31 March 2010

Taxation

Current tax

Current tax for the current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior periods 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 period 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 is 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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

Other intangible assets comprise capitalised bid costs on contracts won within the Group. 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.

Property, plant and equipment

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

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

Useful economic lives are principally as follows:

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

Assets in the course of construction are not depreciated until commissioned.

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

Residential properties, non-specialised properties and rural estates are held at valuation with external valuations being undertaken on a periodic basis. An interim valuation is booked in the intervening years if there has been a material change. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the income statement.

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS23 'Borrowing costs'. In accordance with the transition provisions of the standard, comparative figures have not been restated.

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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

(i) 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.

(ii) 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 period 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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

Inventories

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

Provisions

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

Financial instruments

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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

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

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

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 period 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

Notes to the financial statements (continued)

for the year ended 31 March 2010

The scheme is funded by payments, determined by periodic actuarial calculations agreed between the company 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 periods, 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

Savings related share option scheme

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

Investment in own shares

The Group has an employee share trust (ESOT) which was previously used for the granting of Group shares to executives and senior employees. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity

The finance costs and administration costs relating to the ESOT are charged to the income statement. Dividends earned on shares held in the Trust have been waived

Segmental reporting

The Group's primary reporting format is by business segment and its secondary format is by geographical segment. A segment is a component of the Group which can be distinguished separately as providing a product or service within a particular environment which is subject to risks

Notes to the financial statements (continued)

for the year ended 31 March 2010

and rewards that are different from those of other segments The Group has identified 3 business segments

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

The directors' report details the activities of each segment

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

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

Disposal groups held for sale

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

Exceptional items

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

Principal areas of judgement

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

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

(C) New standards and interpretations

The Group has adopted the following new and amended IFRSs as of 1 April 2009

IFRS8	Operating segments
IFRS7	Financial Instruments - Disclosures (amendment)
IAS1	Presentation of financial statements (revised)
IFRS2	Share-based payments (amendment)
IAS23	Borrowing costs

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

IAS 27	Consolidated and separate financial statements (revised)
IAS 38	Intangible assets (amendment)
IFRS 3	Business combinations (revised)
IFRS5	Non current assets held for sale and discontinued operations (amendment)

Notes to the financial statements (continued)

for the year ended 31 March 2010

IFRIC 17 Distribution of non-cash assets to owners

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

Notes to the financial statements (continued)

for the year ended 31 March 2010

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.

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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

Year ended 31 March 2010

	UK regulated water services £m	KWS - group £m	KWS - JVs £m	Loop £m	KeyLand - group £m	KeyLand - assoc £m	Other non- reg and holding companies £m	Total continuing £m	Reallocation to other operating income £m	Less associates and JVs £m	Total continuing after reallocations £m	US operations (discontinued) £m	Total £m
Total revenue	862 3	128 9	30 1	20 4	4 3	-	11 7	1,057 7	(3 3)	(30 1)	1,024 3	9 4	1,033 7
Inter-company revenue	(3 1)	(10 1)	-	(19 0)	(1 0)	-	(4 6)	(37 8)	-	-	(37 8)	-	(37 8)
External revenue	859 2	118 8	30 1	1 4	3 3	-	7 1	1,019 9	(3 3)	(30 1)	986 5	9 4	995 9
Depreciation	(188 0)	(8 6)	-	(0 3)	(2 1)	-	-	(199 0)	-	-	(199 0)	-	(199 0)
Amortisation of deferred grant income	3 0	-	-	-	-	-	-	3 0	-	-	3 0	-	3 0
Other operating costs	(274 0)	(103 5)	(24 5)	0 3	(2 2)	(3 4)	(33 1)	(440 4)	3 3	30 1	(407 0)	(9 4)	(416 4)
	400 2	6 7	5 6	1 4	(1 0)	(3 4)	(26 0)	383 5	-	-	383 5	-	383 5
Exceptional items in operating costs								7 2	-	-	7 2	-	7 2
								390 7	-	-	390 7	-	390 7
Less associates' and joint ventures' interest								(4 5)	-	-	(4 5)	-	(4 5)
Less associates' and joint ventures' tax								(0 4)	-	-	(0 4)	-	(0 4)
Group operating profit from continuing operations								385 8	-	-	385 8	-	385 8
Investment income											88 5		88 5
Finance costs											(330 7)		(330 7)
Exceptional items in finance costs											(404 6)		(404 6)
Loss from continuing operations before taxation											(261 0)		(261 0)
Tax credit											74 3		74 3
Loss for the year attributable to equity shareholders											(186 7)		(186 7)

Notes to the financial statements (continued)

for the year ended 31 March 2010

	UK regulated water services £m	KWS - group £m	Loop £m	KeyLand - group £m	Other non-reg and holding companies £m	Total continuing £m	US operations (discontinued) £m	Total £m
Assets	4,546 1	229 1	1 0	28 5	2,301 2	7,105 9	9 0	7,114 9
Liabilities	(948 9)	(62 3)	(4 0)	(4 1)	(1,036 6)	(2,055 9)	(18 1)	(2,074 0)
Net debt	(2,780 1)	(137 3)	2 9	6 0	(1,229 0)	(4,137 5)	-	(4,137 5)
Net assets	817 1	29 5	(0 1)	30 4	35 6	912 5	(9 1)	903 4
Other information								
Capital additions	262 0	-	-	-	6 5	268 5	-	268 5

Net debt of £4,137 5m as noted above includes cash of £26 9m and short term deposits of £222 0m which are included in the balance sheet within total assets and liabilities of £4,386 4m which are included on the balance sheet in total liabilities. Net debt is defined in note 23, and does not include financial liabilities.

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

	United Kingdom £m	North America (discontinued) £m	Total £m
Sales revenue	986.5	9.4	995.9
Carrying value of assets	7,105.9	9.0	7,114.9
Capital additions to property, plant and equipment	268.5	-	268.5

Notes to the financial statements (continued)
for the year ended 31 March 2010

71 weeks ended 31 March 2009

	UK regulated water services	KWS - group	KWS - JVs	Loop	KeyLand - group	KeyLand - assoc	Other non-reg and holding companies	Total continuing	Reallocation to other operating income	Less associates and JVs	Total continuing after reallocations	US operations (discontinued)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue	942.2	102.4	77.7	23.3	4.9	5.3	10.2	1,166.0	(4.2)	(83.0)	1,078.8	9.2	1,088.0
Inter-company revenue	-	(1.1)	-	(18.7)	(0.7)	-	(2.7)	(23.2)	-	-	(23.2)	-	(23.2)
External revenue	942.2	101.3	77.7	4.6	4.2	5.3	7.5	1,142.8	(4.2)	(83.0)	1,055.6	9.2	1,064.8
Depreciation	(233.8)	(0.8)	-	(0.2)	(0.9)	-	-	(235.7)	-	-	(235.7)	-	(235.7)
Amortisation of deferred grant income	3.1	-	-	-	-	-	-	3.1	-	-	3.1	-	3.1
Other operating costs	(311.4)	(99.8)	(69.7)	(3.6)	(4.0)	(4.3)	(16.0)	(508.8)	4.2	83.0	(421.6)	(9.2)	(430.8)
	400.1	0.7	8.0	0.8	(0.7)	1.0	(8.5)	401.4	-	-	401.4	-	401.4
Exceptional items in operating costs								(20.3)	-	-	(20.3)	-	(20.3)
								381.1	-	-	381.1	-	381.1
Less associates' and joint ventures' interest								(11.1)	-	-	(11.1)	-	(11.1)
Less associates' and joint ventures' tax								(0.3)	-	-	(0.3)	-	(0.3)
Group operating profit from continuing operations								369.7	-	-	369.7	-	369.7
Investment income											133.2		
Finance costs											(341.4)		
Exceptional items in finance costs											(433.5)		
Loss from continuing operations before taxation											(272.0)		
Tax expense											(72.7)		
Loss for the period attributable to equity shareholders											(344.7)		

Notes to the financial statements (continued)

for the year ended 31 March 2010

71 weeks ended 31 March 2009

	UK regulated water services £m	KWS - group £m	Loop £m	KeyLand - group £m	Other non-reg and holding companies £m	Total continuing £m	US operations (discontinued) £m	Total £m
Assets	4,511.1	66.1	0.9	34.1	2,226.7	6,838.9	7.3	6,846.2
Liabilities	(1,180.5)	(28.4)	(2.0)	(4.2)	(448.3)	(1,663.4)	(20.3)	(1,683.7)
Net Debt	(2,822.6)	-	-	-	(1,225.4)	(4,048.0)	-	(4,048.0)
Net Assets	508.0	37.7	(1.1)	29.9	553.0	1,127.5	(13.0)	1,114.5
Other Information								
Capital Additions	394.5	-	-	-	3.1	397.6	-	397.6

Net debt of £4,048.0m as noted above includes cash of £6.3m and short term deposits of £131.3m which are included in the balance sheet within total assets and liabilities of £4,185.6m which are included on the balance sheet in total liabilities. Net debt is defined in note 23, and does not include financial liabilities.

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

	North America	
	United Kingdom £m	Total £m
Sales revenue	1,055.6	1,064.8
Carrying value of assets	6,838.9	6,846.2
Capital additions to property, plant and equipment	397.6	397.6

Notes to the financial statements (continued)

for the year ended 31 March 2010

4. Operating costs

	Continuing operations	Discontinued operations	2010 Total	Continuing operations	Discontinued operations	71 weeks ended 31 March 2009 Total
	£m	£m	£m	£m	£m	£m
Own work capitalised	(26.4)	-	(26.4)	(31.6)	-	(31.6)
Raw materials and consumables	21.4	-	21.4	18.9	-	18.9
Other external charges	284.0	13.2	297.2	293.2	17.2	310.4
Staff costs (note 6)	117.4	-	117.4	137.9	-	137.9
Depreciation of property, plant and equipment						
On owned assets						
- UK infrastructure	30.3	-	30.3	63.5	-	63.5
- other assets	157.5	-	157.5	160.7	-	160.7
On assets held under finance lease						
- UK infrastructure	1.9	-	1.9	2.1	-	2.1
- other assets	9.3	-	9.3	9.4	-	9.4
Operating lease rentals - minimum lease payments						
- plant and equipment	2.1	-	2.1	2.4	-	2.4
- other	0.4	-	0.4	0.4	-	0.4
Amortisation of grants and contributions	(3.0)	-	(3.0)	(3.1)	-	(3.1)
Amortisation of intangible assets	0.5	-	0.5	0.1	-	0.1
Research and development	0.8	-	0.8	0.8	-	0.8
Impairment of trade receivables	14.4	-	14.4	12.1	-	12.1
Other operating income	(5.4)	-	(5.4)	(3.6)	-	(3.6)
	605.2	13.2	618.4	663.2	17.2	680.4

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

	2010	71 weeks ended 31 March 2009
	£m	£m
Group operating profit before share of associates and joint ventures	388.5	372.1
Add back exceptional items	(7.2)	20.3
Add back depreciation (as above)	199.0	235.7
Add back amortisation of intangible assets (as above)	0.5	0.1
EBITDA	580.8	628.2

Notes to the financial statements (continued)

for the year ended 31 March 2010

Auditors' remuneration

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

	2010 £m	2009 £m
Fees payable to the company's auditor for the audit of the parent company and consolidated financial statements	0.2	0.1
Fees payable to company's auditor for other services		
- The audit of company's subsidiaries pursuant to legislation	0.1	-
- Other services pursuant to legislation	0.1	0.6
	0.4	0.7

5. Exceptional items

Exceptional items comprise

	2010 £m	71 weeks ended 31 March 2009 £m
Included in operating costs:		
Costs incurred on corporate transactions	-	(17.2)
Costs associated with whole business securitisation	-	(15.9)
Restructuring costs	(2.2)	(4.7)
Insurance proceeds received in relation to capital and operations	-	33.0
Write off book value of associated assets	-	(15.5)
Negative goodwill on acquisition	9.4	-
	7.2	(20.3)
Included in finance costs		
Movement on fair value of index linked swaps	(423.8)	(433.5)

Negative goodwill arose during the year of £9.4m on the acquisition of Brey Services Limited and Brey Utilities Limited. Under IFRS this has been credited immediately to the income statement as an exceptional credit. See note 11.

The movement of fair value of index linked swaps is a result of swaps which were taken out by the Group during the period. 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 2010 resulted in a £854.8m loss (2009 £433.5m). Of the year on year movement of £421.3m, a credit of £2.5m relating to RPI accretion has been recognised within finance costs and £423.8m 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. However, this loss is unrealised and may reverse in the future.

Costs incurred on corporate transactions relate mainly to the acquisition of Kelda Group Plc by Saltaire Water Limited in February 2008.

Notes to the financial statements (continued)

for the year ended 31 March 2010

Costs associated with the whole business securitisation relate to advisers' costs incurred on the restructuring of borrowings in YW

Restructuring costs relate to redundancy and other restructuring costs within one of the divisions of YW

Insurance proceeds were received to reinstate flood damaged assets, the cost of which will appear within capital expenditure as incurred. Associated assets were written off in the period.

6. Directors and employees

Average monthly number of people employed	2010 Number	2009 Number
Continuing operations:		
UK regulated water services	2,132	2,194
Other activities	1,226	1,180
	3,358	3,374
		71 weeks ended 31 March 2009
	2010 £m	2009 £m
Total employment costs:		
Wages and salaries	97.1	111.9
Social security contributions	8.5	9.8
Other pension costs	11.8	16.2
	117.4	137.9

Included in wages and salaries is a total share-based payment expense of £0.3m (71 weeks ended 31 March 2009 £0.7m), all of which relates to transactions accounted for as an equity-settled share-based payments.

Directors' emoluments

	2010 £m	2009 £m
Aggregate emoluments	2.0	1.6
The amounts in respect of the highest paid director are as follows		
Emoluments	1.3	1.0

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

During 2009/10, all executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2009/10 was £3.3m (2009 £2.0m). One director has exercised share options during the year.

Notes to the financial statements (continued)
for the year ended 31 March 2010

7. Investment income and finance costs

	2010 £m	71 weeks ended 31 March 2009 £m
Investment income		
Interest on bank deposits	9.2	20.3
Income from index linked swaps	38.1	62.3
Return on pension scheme assets (note 20)	41.2	50.6
Total investment income	88.5	133.2
Finance costs		
3.0544% guaranteed bonds 2010	4.6	-
6.875% guaranteed bonds 2010	8.2	13.9
6.5876% guaranteed bonds 2010	1.4	-
6% guaranteed bonds 2019	11.6	-
6.5876% guaranteed bond 2023	8.2	-
5.375% guaranteed bond 2023	2.8	10.7
5.5% guaranteed bond 2027	2.5	8.3
6.454% index linked guaranteed bond 2027	6.0	-
6.6011% guaranteed bond 2031	11.5	-
6.625% guaranteed bond 2031	6.0	15.9
3.048% index linked guaranteed bond 2033	1.2	8.9
3.3066% index linked guaranteed bond 2033	1.4	-
5.5% guaranteed bond 2037	10.6	10.3
6.375% guaranteed bonds 2039	8.8	-
2.718% index linked guaranteed bonds 2039	8.5	-
1.8225% index linked guaranteed bonds 2050	3.7	1.4
1.462% index linked guaranteed bonds 2051	6.9	2.2
1.75756% index linked guaranteed bonds 2054	4.8	1.7
1.46% index linked guaranteed bonds 2056	6.9	2.2
1.7085% index linked guaranteed bonds 2058	5.6	1.9
Amortisation of issue costs in respect of bonds	1.0	0.5
Total finance costs for bonds	122.2	77.9
Bank loans and overdrafts	55.1	18.0
Other loans	66.6	146.4
Finance leases	9.8	23.1
Interest payable to parent companies	11.8	29.8
Interest cost on pension scheme liabilities (note 20)	46.0	46.2
Total finance costs	311.5	341.4

£1.6m of interest has been capitalised by the Group during the year (71 weeks ended 31 March 2009: £nil)

Notes to the financial statements (continued)

for the year ended 31 March 2010

8. Taxation expense

	2010	71 weeks ended 31 March 2009
	£m	£m
Current tax		
UK corporation tax at 28%	34.4	42.9
Adjustments in respect of previous periods	1.3	-
Total current tax from continuing operations	35.7	42.9
Deferred tax		
UK charge for temporary differences arising and reversing in the year/ (period)	(108.9)	29.8
Over provision in respect of previous periods	(1.1)	-
Total deferred tax on continuing activities (note 19)	(110.0)	29.8
Total tax (credit)/ charge on profit on ordinary activities	(74.3)	72.7
Tax relating to items credited to equity		
Deferred tax.		
Actuarial losses in respect of defined benefit pension schemes	(10.4)	(19.1)
Gain/ (loss) on hedges	1.7	(7.2)
Tax credit in the Group statement of comprehensive income	(8.7)	(26.3)

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

	2010	71 weeks ended 31 March 2009
	£m	£m
Loss from continuing operations before taxation	(261.0)	(272.0)
Less share of associates' and joint ventures' taxation	0.4	0.3
Loss on ordinary activities before tax	(260.6)	(271.7)
Less share of associates' and joint ventures' loss before tax	2.3	2.1
Group loss on ordinary activities before tax	(258.3)	(269.6)
Current and deferred tax on group loss on ordinary activities at the standard UK tax rate	(72.3)	(75.5)
Effects of		
Income not chargeable for tax purposes	(5.3)	-
Expenses not deductible for tax purposes	3.1	15.0
Difference in tax rate for long accounting period	-	(0.1)
Write off of deferred tax asset due to phase out of Industrial Buildings Allowances	-	133.3
Adjustments in respect of prior periods	0.2	-
Group current and deferred tax (credit)/ charge for the year (period)	(74.3)	72.7

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. The Finance Act (No 2) 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Notes to the financial statements (continued)

for the year ended 31 March 2010

The effect of the changes to be enacted in the Finance Act (No 2) 2010 would be to reduce the deferred tax liability provided at 31 March 2010 by £22.2m. This £22.2m decrease in the deferred tax liability would decrease the loss after tax for the year by £22.2m. This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 28 per cent to 27 per cent with effect from 1 April 2011.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27% to 24%, if these applied to the deferred tax balance at 31 March 2010, would be to reduce the deferred tax liability by £66.8m (being £22.3m provided in 2012, £22.2m provided in 2013 and £22.3m provided in 2014).

Deferred tax (credit)/ charge for the year/ (period) relates to the following

	71 weeks ended 31 March	
	2010	2009
	£m	£m
Accelerated depreciation for tax purposes	(7.5)	144.1
Fair value adjustment of infrastructure assets	3.0	4.9
Financial instruments	(106.9)	(121.2)
Retirement benefit obligations	1.4	2.0
Deferred tax (credit)/ charge	(110.0)	29.8

9. Discontinued operations

The Group owns a company trading in the US which is classified as discontinued. The results of these operations which are included within the Group's results are summarised below.

	71 weeks ended 31 March	
	2010	2009
	£m	£m
Revenue	9.4	9.2
Expenses	(13.2)	(17.2)
Release of accrual	3.8	8.0
Operating result	-	-

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

	2010	2009
	£m	£m
Assets		
Trade receivables	9.0	7.3
Liabilities		
Trade and other payables	(18.1)	(20.3)

10. Dividends

No dividends were paid during the year (71 weeks ended 31 March 2009: £5.0m, of which £0.3m were paid to the ESOT).

Notes to the financial statements (continued)

for the year ended 31 March 2010

11. Intangible assets

	Capitalised bid costs £m	Goodwill £m	Total £m
On incorporation	-	-	-
On acquisition of subsidiaries	0.1	1,799.2	1,799.3
Amortisation	(0.1)	-	(0.1)
At 31 March 2009	-	1,799.2	1,799.2
On acquisition of subsidiaries	13.0	0.2	13.2
Adjustment to goodwill on Kelda acquisition	-	0.9	0.9
Amortisation	(0.5)	-	(0.5)
At 31 March 2010	12.5	1,800.3	1,812.8

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

In addition, on 22 October 2009, Kelda Water Services Ltd purchased the remaining 50% of the issued share capital of Brey Utilities Ltd and Brey Services Ltd. This brought the Group's ownership of these two companies to 100%. The negative goodwill of £9.4m arising on acquisition was credited directly to the income statement.

On acquisition the Dalriada companies had intangible assets of £4.0m relating to capitalised bid costs and the Brey companies had capitalised bid costs of £9.0m.

Goodwill on acquisition of subsidiaries in the prior year relates to the purchase on 8 February 2008 of the entire issued share capital of Kelda Group plc by Saltaire Water Limited. This consisted of 275,788,770 ordinary shares (of which 1,187,280 were held in the ESOT) and 5,167,670 B shares. As these shares were listed at the date of purchase, the fair value is considered to be the purchase price.

The calculation of goodwill on acquisitions during 2009/10 was as follows:

	Brey Utilities Ltd £m	Brey Services Ltd £m	Dalriada Water Holdings Ltd £m	Dalriada Water Services Ltd £m
Consideration for the purchase of issued ordinary share capital	14.5	0.1	11.0	2.5
Other costs directly attributable to the acquisition	0.1	-	0.2	0.1
	14.6	0.1	11.2	2.6
Less: Fair value of assets acquired (see below)	(23.3)	(0.8)	(11.0)	(2.6)
Negative goodwill credited to the income statement	8.7	0.7	-	-
Goodwill	-	-	0.2	-

Notes to the financial statements (continued)

for the year ended 31 March 2010

Total costs of acquisition amounted to £28.5m. After taking account of the cash held within the subsidiary companies of £11.7m, a net cash flow of £16.8m arose on acquisition.

Management determine that book value of net assets equates to fair value in each case, given the nature of the assets involved. As the acquisitions are not considered to be material, details of net assets are not disclosed.

Impairment tests for goodwill

Existing goodwill of £1,800.1m 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, YW's final determination and long term business modelling covering a 50 year period.

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

	2010	2009
Long term inflation (post 2010)	2.75%	2.5%
Discount rate (post-tax, before inflationary growth)	4.50%	4.76%

Discount rates for 2009 were based on those proposed in YW's draft determination submitted to Ofwat during the year. Discount rates for 2010 are based on YW's final determination, being the rate of return allowed by the regulator.

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2010 or period ended 31 March 2009.

12. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2009	1,553.8	2,965.9	2,276.0	413.2	7,208.9
On acquisition of subsidiary	3.6	-	166.0	7.7	177.3
Additions at cost	35.7	25.4	91.3	104.2	256.6
Grants and contributions	-	-	-	(12.7)	(12.7)
Transfers on commissioning	100.4	33.3	156.4	(290.1)	-
Disposals	(7.3)	-	(3.3)	(0.6)	(11.2)
At 31 March 2010	1,686.2	3,024.6	2,686.4	221.7	7,618.9
Accumulated depreciation					
At 1 April 2009	336.1	967.7	1,075.5	-	2,379.3
On acquisition of subsidiary	0.3	-	7.8	-	8.1
Charge for the year	33.3	30.3	135.4	-	199.0
Disposals	(2.1)	-	(3.7)	-	(5.8)
At 31 March 2010	367.6	998.0	1,215.0	-	2,580.6
Net book amount at 31 March 2010	1,318.6	2,026.6	1,471.4	221.7	5,038.3

Notes to the financial statements (continued)

for the year ended 31 March 2010

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
On incorporation	-	-	-	-	-
On acquisition of subsidiary	1,421.8	2,818.6	2,142.0	416.5	6,798.9
Additions at cost	26.2	52.1	70.6	248.7	397.6
Grants and contributions	-	17.5	-	(24.3)	(6.8)
Surplus on revaluation	51.0	-	-	-	51.0
Transfers on commissioning	56.1	77.7	93.9	(227.7)	-
Disposals	(1.3)	-	(30.5)	-	(31.8)
At 31 March 2009	1,553.8	2,965.9	2,276.0	413.2	7,208.9
Accumulated depreciation					
On incorporation	-	-	-	-	-
On acquisition of subsidiary	304.2	902.1	970.6	-	2,176.9
Charge for the period	34.9	65.6	135.2	-	235.7
Revaluation	(1.8)	-	-	-	(1.8)
Disposals	(1.2)	-	(30.3)	-	(31.5)
At 31 March 2009	336.1	967.7	1,075.5	-	2,379.3
Net book amount at 31 March 2009	1,217.7	1,998.2	1,200.5	413.2	4,829.6

Assets included above held under finance leases amount to

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost	126.4	100.0	206.1	-	432.5
Depreciation	(31.7)	(19.4)	(124.0)	-	(175.1)
Net book amount at 31 March 2010	94.7	80.6	82.1	-	257.4
Cost	126.5	99.9	207.1	-	433.5
Depreciation	(29.6)	(17.5)	(117.2)	-	(164.3)
Net book amount at 31 March 2009	96.9	82.4	89.9	-	269.2

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

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

The revaluations were based on values as at 31 March 2009

Notes to the financial statements (continued)

for the year ended 31 March 2010

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 2010 is £52.2m (2009: £52.8m) offset by a provision for deferred tax on the revalued amount of £14.7m.

Categories of assets revalued are as follows

	Revalued amount £m	Historical cost basis £m
Non-specialist properties	7.5	2.4
Rural estates	43.9	0.8
Residential properties	4.7	0.1
Net book amount of asset revalued	56.1	3.3

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

	Revalued amount £m	Historical cost basis £m
At cost	56.1	5.1
Aggregated depreciation	-	(1.8)
Net book amount at 31 March 2009	56.1	3.3
Disposal of revalued assets	(0.3)	-
Transfer to profit and loss for additional depreciation incurred	(0.3)	-
Net book amount at 31 March 2010	55.5	3.3

Notes to the financial statements (continued)
for the year ended 31 March 2010

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 to joint ventures £m	Total investment s in joint ventures £m
Cost and share of post acquisition retained losses						
On incorporation	-	-	-	-	-	-
On acquisition of subsidiary	0.3	6.3	6.6	2.5	14.3	16.8
Share of sustained loss for the period	(0.7)	-	(0.7)	(1.7)	-	(1.7)
Movement in the period	-	(3.9)	(3.9)	-	7.7	7.7
At 31 March 2009	(0.4)	2.4	2.0	0.8	22.0	22.8
Share of sustained loss for the year	(3.7)	-	(3.7)	(0.3)	-	(0.3)
Movement in the year	-	0.6	0.6	-	(23.2)	(23.2)
Additional investment	-	-	-	0.5	-	0.5
Other equity movements	-	-	-	0.3	-	0.3
At 31 March 2010	(4.1)	3.0	(1.1)	1.3	(1.2)	0.1

The other movement on investments relates to the purchase of the remaining 50% of certain associates, which are subsequently classified as subsidiaries (Note 11)

Of the share of net assets in the table above of (£2.8m), the share of losses relating to certain associated undertakings of (£5.5m) is held as a provision in line with IAS27. The remaining £2.7m is shown as an investment.

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

	2010 £m	2009 £m
Non-current assets	4.4	7.9
Current assets	6.2	5.8
Share of gross assets	10.6	13.7
Current liabilities	(14.7)	(14.1)
Non-current liabilities	-	-
Share of liabilities	(14.7)	(14.1)
Share of net liabilities	(4.1)	(0.4)
Revenue	-	5.3
Operating (loss)/ profit	(3.4)	1.0
Finance costs	(0.3)	(0.3)
Loss before tax	(3.7)	0.7
Tax credit	-	-
Sustained loss	(3.7)	0.7

Notes to the financial statements (continued)

for the year ended 31 March 2010

The aggregate amounts of net assets and net profit/ (loss) relating to joint ventures are

	2010 £m	2009 £m
Non-current assets	34.0	110.3
Current assets	7.2	32.9
Share of gross assets	41.2	143.2
Current liabilities	(4.7)	(30.3)
Non-current liabilities	(35.2)	(112.1)
Share of liabilities	(39.9)	(142.4)
Share of net assets	1.3	0.8
Revenue	30.1	77.7
Operating costs	(24.5)	(69.7)
Operating profit	5.6	8.0
Finance costs	(4.2)	(7.5)
Profit before tax	1.4	0.5
Tax credit	(0.4)	(2.2)
Net profit (loss)	1.0	(1.7)
Dividends paid	(1.3)	-
Sustained loss	(0.3)	(1.7)

14. Inventories

	2010 £m	2009 £m
Raw materials and consumables	5.5	1.0

15. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	113.0	96.5
Provision for impairment of trade receivables	(21.7)	(18.2)
Amounts owed by associated undertakings	8.6	1.3
Prepayments and accrued income	66.7	73.3
Other debtors	57.6	31.4
	224.2	184.3

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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

Trade receivables can be analysed as follows

	2010 £m	2009 £m
Main charges trade debtors:		
Past due but not impaired	68.2	72.9
Past due and impaired	20.4	18.2
Other trade debtors:		
Past due but not impaired	23.1	5.4
Past due and impaired	1.3	-
	113.0	96.5

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

	2010 £m	2009 £m
Main charges trade debtors:		
Less than one year overdue	49.9	59.0
Between one and two years overdue	11.1	8.3
Between two and three years overdue	4.2	3.2
Between three and four years overdue	1.7	1.3
More than four years overdue	1.3	1.1
Other trade debtors:		
Less than one year overdue	22.3	5.4
Between one and two years overdue	0.6	-
Between two and three years overdue	0.1	-
More than four years overdue	0.1	-
	91.3	78.3

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

	2010 £m	2009 £m
Main charges trade debtors:		
Less than one year overdue	9.7	11.9
Between one and two years overdue	4.2	3.6
Between two and three years overdue	2.7	1.5
Between three and four years overdue	2.1	0.6
More than four years overdue	1.8	0.6
Other trade debtors:		
Less than one year overdue	1.2	-
	21.7	18.2

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

	2010 £m	2009 £m
Provision brought forward	18.2	
On acquisition of subsidiary	0.8	16.3
Provision for impairment	14.4	12.1
Amounts written off	(11.7)	(10.2)
Provision at 31 March 2010	21.7	18.2

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

Notes to the financial statements (continued)

for the year ended 31 March 2010

16. Financing

(i) Cash and short-term deposits

	2010	2009
	£m	£m
Cash at bank and in hand	26.9	6.3
Short-term deposits	222.0	131.3
	248.9	137.6

At 31 March 2010, the Group had available £740.0m (2009 £807.0m) of undrawn committed borrowing facilities, of this at 31 March 2009 £377.0m was only available to replace EIB bank debt if withdrawn

(ii) Borrowings

	2010	2009
	£m	£m
Short-term borrowings:		
Bank loans	27.1	25.0
3.0544% guaranteed bonds 2010	94.5	-
6.875% guaranteed bonds 2010	79.3	-
Other loans	4.8	-
Loan notes	0.2	0.6
Finance leases	12.5	6.0
	218.4	31.6

	2010	2009
	£m	£m
Long term borrowings:		
Bank loans	304.0	777.2
6.875% guaranteed bonds 2010	-	204.0
6% guaranteed bonds 2019	272.3	-
6.5876% guaranteed bonds 2023	197.0	-
5.375% guaranteed bonds 2023	3.5	182.9
5.5% guaranteed bonds 2027	6.1	137.8
6.454% guaranteed bonds 2027	124.6	-
6.6011% guaranteed bonds 2031	262.9	-
6.625% guaranteed bonds 2031	0.6	248.2
3.048% index linked guaranteed bonds 2033	(0.9)	141.7
3.3066% index linked guaranteed bonds 2033	146.2	-
5.5% guaranteed bonds 2037	181.8	181.7
6.375% guaranteed bonds 2039	197.6	-
2.718% index linked guaranteed bonds 2039	180.1	-
1.8225% index linked guaranteed bonds 2050	56.6	54.1
1.462% index linked guaranteed bonds 2051	93.6	88.7
1.75756% index linked guaranteed bonds 2054	71.7	68.4
1.46% index linked guaranteed bonds 2056	96.2	91.4
1.7085% index linked guaranteed bonds 2058	81.8	78.0
Loan notes issued by Saltaire Water Limited	43.5	62.3
Bank loans under Senior Holdco facility	1,040.0	1,037.4
Other loans	125.8	19.6
Finance leases	368.5	389.6
Amounts owed to parent companies	314.5	391.0
	4,168.0	4,154.0

Notes to the financial statements (continued)

for the year ended 31 March 2010

3 0544% guaranteed bonds 2010 (Exchange bonds)

These bonds are repayable in one instalment on 23 April 2010 Interest is charged at 3 0544%

6 875% guaranteed bonds 2010 (Stranded bonds)

These bonds are repayable in one sum on 23 April 2010 Interest is charged at 6 875%

6% guaranteed bonds 2019

These bonds are repayable in one sum on 21 August 2019 Interest is charged at 6%

6 5876% guaranteed bonds 2023 (Exchange bonds)

These bonds are repayable in one sum on 21 February 2023 Interest is charged at 6 5876%

5 375% guaranteed bonds 2023 (Stranded bonds)

These bonds are repayable in one instalment on 21 February 2023 Interest is charged at 5 375%

5 5% guaranteed bonds 2027 (Stranded bonds)

These bonds are repayable in one instalment on 28 May 2027 Interest is charged at 5 5%

6 454% guaranteed bonds 2027 (Exchange bonds)

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

6 6011% guaranteed bonds 2031 (Exchange bonds)

These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6 6011%

6 625% guaranteed bonds 2031 (Stranded bonds)

These bonds are repayable in one sum on 17 April 2031 Interest is charged at 6 625%

3 048% index linked guaranteed bonds 2033 (Stranded bonds)

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

3 3066% index linked guaranteed bonds 2033 (Exchange bonds)

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

5 5% guaranteed bonds 2037

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

6 375% guaranteed bonds 2039

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

2 718% index linked guaranteed bonds 2039

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

1 8225% index linked guaranteed bonds 2050

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

Notes to the financial statements (continued)

for the year ended 31 March 2010

1 462% index linked guaranteed bonds 2051

These bonds are repayable in one instalment on 1 August 2051. The interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1 75756% index linked guaranteed bonds 2054

These bonds are repayable in one instalment on 1 February 2054. The interest is charged at 1.75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1 46% index linked guaranteed bonds 2056

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

1 7085% index linked guaranteed bonds 2058

These bonds are repayable in one instalment on 1 February 2058. The interest is charged at 1.7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

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

Bank Loans

Short and long term bank loans are held in sterling and bear interest at normal commercial rates. The weighted average interest rates associated with the bank loans were 3.268% (2009 2.656%).

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

	Minimum lease payments 2010 £m	Minimum lease payments 2009 £m
Amounts payable under finance leases		
Within one year	35.7	51.4
More than one but less than five years	185.1	229.6
After five years	453.4	437.2
	674.2	718.2
Less: future finance charges	(293.2)	(322.6)
Present value of lease obligations	381.0	395.6
Amount due for settlement within 12 months	12.5	6.0
Amount due for settlement after 12 months	368.5	389.6
	381.0	395.6

All lease obligations are denominated in sterling.

Notes to the financial statements (continued)

for the year ended 31 March 2010

The weighted average lease term is 15.5 years (2009: 16.4 years). For the year ended 31 March 2010 the average effective borrowing rate was 1.9% (2009: 5.8%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

17. Trade and other payables

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade payables	63.9	58.9
Capital payables	38.8	61.2
Deferred grants and contributions on depreciated property, plant and equipment	3.0	3.0
Social security and payroll deductions	2.8	2.6
Receipts in advance	53.8	53.5
Other payables	146.5	123.1
	308.8	302.3
Amounts falling due after more than one year:		
Deferred grants and contributions on depreciated property, plant and equipment	73.4	75.6
Other payables	69.8	38.3
	143.2	113.9

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
On incorporation	-
On acquisition of subsidiaries	0.5
At 31 March 2009	0.5
Provision created in relation to losses sustained in associated undertakings	5.8
Utilised in year	(0.2)
At 31 March 2010	6.1

Notes to the financial statements (continued)
for the year ended 31 March 2010

19. Deferred tax

	Accelerate d 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
On incorporation	-	-	-	-	-	-	-
On acquisition of subsidiaries	681.2	27.2	-	1.0	0.4	9.0	718.8
Charge/(credit) to income statement	144.1	4.9	-	-	(121.2)	2.0	29.8
Credit to equity	-	-	-	-	(7.2)	(19.1)	(26.3)
At 31 March 2009	825.3	32.1	-	1.0	(128.0)	(8.1)	722.3
On acquisition of subsidiaries	4.7	-	-	-	-	-	4.7
Charge/(credit) to income statement	(7.5)	3.0	-	-	(106.9)	1.4	(110.0)
Charge to revaluation reserve	-	-	14.7	-	-	-	14.7
Credit to equity	-	-	-	-	1.7	(10.4)	(8.7)
At 31 March 2010	822.5	35.1	14.7	1.0	(233.2)	(17.1)	623.0

The Group has unrecognised capital losses of £12.8m (2009 £11.8m) 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 2010 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 47.5% of members' contributions up to 30 September 2008 and 22.2% of pensionable pay thereafter in respect of the majority of members. The Group also paid a deficit contribution of £3.3m in September 2009 and £1.6m in March 2010 (£0.3m in March 2009).

An accrual for unfunded benefits of £4.4m has been included in the Group's financial statements at 31 March 2010 (2009 £3.2m).

Notes to the financial statements (continued)

for the year ended 31 March 2010

(ii) Major assumptions

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

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

(iii) Scheme assets and liabilities

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

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

	2010 Market value £m	Expected long term rate of return %
Fair value of scheme assets		
Equities	523.1	7.32
Bonds	246.3	5.09
Property	68.1	7.32
Other	4.5	4.57
Total value of assets	842.0	
Present value of scheme liabilities	(909.5)	
Pension liability	(67.5)	

	2009 Market value £m	Expected long term rate of return %
Fair value of scheme assets		
Equities	368.0	7.15
Bonds	207.3	5.53
Property	42.3	7.15
Other	16.9	4.40
Total value of assets	634.5	
Present value of scheme liabilities	(668.5)	
Pension liability	(34.0)	

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

	2010 £m	2009 £m
Analysis of amount charged to operating costs		
Current service cost	13.5	14.7
Past service cost	0.8	1.9
Analysis of amount (credited)/charged to other investment income/finance costs		
Expected return on pension scheme assets	(41.2)	(50.6)
Interest on pension scheme liabilities	46.0	46.2
Amounts charged to the income statement before taxation	19.1	12.2
Analysis of amounts recognised in Group statement of comprehensive income		
Actual return less expected return on pension scheme assets	173.6	(200.0)
Experience gains and losses arising on the scheme's liabilities	-	5.9
Changes in assumptions underlying the present value of the scheme's liabilities	(210.9)	125.9
Actuarial loss recognised in the Group statement of comprehensive income	(37.3)	(68.2)

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

The total contributions to the defined benefits plan in the period ending 31 March 2011 are expected to be £25.7m for the Group

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

	2010 £m	2009 £m
Movement in liabilities during the year/ (period)		
Liabilities at beginning of year (on acquisition)	(668.5)	(763.3)
Movement in the year/ (period)		
- plan participants' contributions	(0.2)	(2.0)
- current service cost	(13.5)	(14.7)
- interest cost	(46.0)	(46.2)
- past service cost	(0.8)	(1.9)
- benefits paid	31.6	28.1
- actuarial (loss)/ gain	-	5.9
- changes in assumptions	(210.9)	125.9
Movement in unremitted contributions at the year (period) end	(1.2)	(0.3)
Pension liabilities at year/ (period) end	(909.5)	(668.5)
Movement in assets during the year/ (period)		
Assets at beginning of year (on acquisition)	634.5	790.6
Movement in year/ (period)		
- plan participants' contributions	0.2	2.0
- employer contributions	24.1	19.4
- other finance income	41.2	50.6
- actuarial gain/ (loss)	173.6	(200.0)
- benefits paid	(31.6)	(28.1)
Pension assets at year/ (period) end	842.0	634.5

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

(vi) History of experience gains and losses

	2010 £m	2009 £m
Fair value of scheme assets	842.0	634.5
Present value of defined benefit obligation	(909.5)	(668.5)
Deficit in the scheme	(67.5)	(34.0)
Experience gains and losses on scheme liabilities	-	5.9
Experience gains and losses on scheme assets	173.6	(200.0)

IAS 19 requires that the pension schemes are valued using market conditions at the Group's period 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 Company 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 period ended 31 March 2010 was £0.4m (2009: £0.4m).

Notes to the financial statements (continued)

for the year ended 31 March 2010

21. Authorised and issued share capital

	Ordinary shares of 1p Number	1p shares £	Ordinary shares of £1 Number	£1 shares £
Authorised				
At 31 March 2009 and 31 March 2010	1	0 01	1,473,500,000	1,473,500,000
Allotted, called up and fully paid				
At 31 March 2009 and 31 March 2010	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 2009 and 2010, 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	2010 Number of shares	2009 Number of shares	Option price	Normal exercise date
Sharesave schemes					
Three year schemes	30-Dec-05	-	58,084	588 0p	Mar-Aug 2009
	28-Dec-06	23,812	118,164	741 0p	Mar-Aug 2010
Five year schemes	09-Jan-04	-	45,711	366 0p	Mar-Aug 2009
	07-Jan-05	61,780	162,680	461 0p	Mar-Aug 2010
	30-Dec-05	147,232	150,077	588 0p	Mar-Aug 2011
	28-Dec-06	95,177	97,781	741 0p	Mar-Aug 2012

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

	2010 Less than one year £m	2010 More than one year £m	2010 Total £m	2009 Less than one year £m	2009 More than one year £m	2009 Total £m
Financial liabilities						
Finance lease swaps	-	(17.8)	(17.8)	(0.5)	(25.0)	(25.5)
Index linked swaps	-	(838.1)	(838.1)	-	(433.5)	(433.5)
	-	(855.9)	(855.9)	(0.5)	(458.5)	(459.0)
Net debt						
Cash and short term deposits	248.9	-	248.9	137.6	-	137.6
Borrowings	(218.4)	(4,168.0)	(4,386.4)	(31.6)	(4,154.0)	(4,185.6)
	30.5	(4,168.0)	(4,137.5)	106.0	(4,154.0)	(4,048.0)

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.

Notes to the financial statements (continued)
for the year ended 31 March 2010

(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 period as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Year ended 31 March 2010

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	44.1	58.3	54.0	45.0	37.9	181.4	420.7
3.0544% guaranteed bonds 2010	94.7	-	-	-	-	-	94.7
6.875% guaranteed bonds 2010	79.7	-	-	-	-	-	79.7
6% guaranteed bonds 2019	16.5	16.5	16.5	16.5	13.9	347.5	430.0
6.5876% guaranteed bonds 2023	13.9	13.9	13.9	13.9	13.9	320.2	389.7
5.375% guaranteed bonds 2023	0.4	0.4	0.4	0.4	0.4	9.4	11.4
5.5% guaranteed bonds 2027	0.4	0.4	0.4	0.4	0.4	12.4	14.4
6.454% guaranteed bonds 2027	8.7	8.7	8.7	8.7	8.7	242.0	285.5
6.6011% guaranteed bonds 2031	16.8	16.8	16.8	16.8	16.8	525.2	609.2
6.625% guaranteed bonds 2031	-	-	-	-	-	0.4	0.4
5.5% guaranteed bonds 2037	10.3	10.3	10.3	10.3	10.3	426.9	478.4
6.375% guaranteed bonds 2039	12.8	12.8	12.8	12.8	12.8	510.7	574.7
Other loans	12.7	12.0	11.6	11.2	11.0	170.5	229.0
Finance lease swaps	10.5	7.4	1.6	0.7	0.7	11.7	32.6
	321.5	157.5	147.0	136.7	129.4	2,758.3	3,650.4
Floating rate							
3.048% index linked guaranteed bond 2033	-	-	-	-	-	(0.2)	(0.2)
3.3066% index linked guaranteed bond 2033	3.0	3.0	3.0	3.0	3.0	157.5	172.5
2.718% index linked guaranteed bond 2039	4.8	4.8	4.8	4.8	4.8	292.5	316.5
1.8225% index linked guaranteed bond 2050	1.2	1.2	1.2	1.2	1.2	110.4	116.4
1.462% index linked guaranteed bond 2051	1.8	1.8	1.8	1.8	1.8	203.0	212.0
1.75756% index linked guaranteed bonds 2054	1.5	1.5	1.5	1.5	1.5	148.6	156.1
1.46% index linked guaranteed bonds 2056	1.8	1.8	1.8	1.8	1.8	212.0	221.0
1.7085% index linked guaranteed bonds 2058	1.7	1.7	1.7	1.7	1.7	179.7	188.2
Bank loans under Senior Holdco facility	16.7	1,063.7	-	-	-	-	1,080.4
Index linked swaps	27.1	27.1	27.1	27.1	27.1	786.3	921.8
Finance leases	25.9	29.5	38.0	45.2	50.5	326.0	515.1
	85.5	1,136.1	80.9	88.1	93.4	2,415.8	3,899.8
Financial assets							
Floating rate							
Cash and short term deposits	(249.0)	-	-	-	-	-	(249.0)
Loans to associates/joint ventures	(1.8)	-	-	-	-	-	(1.8)
	(250.8)	-	-	-	-	-	(250.8)

Notes to the financial statements (continued)

for the year ended 31 March 2010

Period ended 31 March 2009

	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	63.1	63.8	524.2	53.8	44.8	219.9	969.6
6.875% guaranteed bonds 2010	13.8	213.8	-	-	-	-	227.6
5.375% guaranteed bonds 2023	10.8	10.8	10.8	10.8	10.8	296.8	350.8
5.5% guaranteed bonds 2027	8.3	8.3	8.3	8.3	8.3	257.3	298.8
6.625% guaranteed bonds 2031	15.9	15.9	15.9	15.9	15.9	510.3	589.8
5.125% guaranteed bonds 2037	10.3	10.3	10.3	10.3	10.3	435.8	487.3
Other loans	0.5	0.5	0.5	0.5	0.5	20.1	22.6
Finance lease swaps	-	-	-	-	-	-	-
	122.7	323.4	570.0	99.6	90.6	1,740.2	2,946.5
Floating rate							
3.048% index linked guaranteed bond 2033	3.0	3.0	3.0	3.0	3.0	157.9	172.9
1.8225% index linked guaranteed bonds 2050	1.2	1.2	1.2	1.2	1.2	107.6	113.6
1.462% index linked guaranteed bond 2051	1.8	1.8	1.8	1.8	1.8	192.6	201.6
1.75756% index linked guaranteed bonds 2054	1.5	1.5	1.5	1.5	1.5	144.8	152.3
1.46% index linked guaranteed bond 2056	1.8	1.8	1.8	1.8	1.8	201.7	210.7
1.7085% index linked guaranteed bonds 2058	1.7	1.7	1.7	1.7	1.7	175.2	183.7
Bank loans under Senior Holdco facility	47.1	47.1	1,094.1	-	-	-	1,188.3
Loan notes issued by Saltaire Water Limited	1.2	1.2	1.2	1.2	1.2	63.5	69.5
Index linked swaps	(17.0)	(17.0)	(17.0)	(17.0)	(17.0)	(562.0)	(647.0)
Other loans	0.6	-	-	-	-	-	0.6
Finance leases	15.9	16.0	16.2	16.3	25.8	362.4	452.6
	58.8	58.3	1,105.5	11.5	21.0	843.7	2,098.8
Financial assets							
Floating rate							
Cash and short term deposits	(140.2)	-	-	-	-	-	(140.2)
Loans to associates/joint ventures	(24.4)	-	-	-	-	-	(24.4)
	(164.6)	-	-	-	-	-	(164.6)

(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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

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 debtors on the year end balance sheet. These can be split into main charges debtors and other trade debtors.

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

Risks associated with other trade debtors 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 debtors.

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 debtors, 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.

Notes to the financial statements (continued)

for the year ended 31 March 2010

(c) Fair values of financial assets and financial liabilities

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

	2010 Book value £m	2010 Fair value £m	2009 Book value £m	2009 Fair value £m
Primary financial instruments financing the Group's operations				
Financial assets				
Cash and short term deposits	(249.0)	(249.0)	(140.2)	(140.2)
Loans to associates/joint ventures	(1.8)	(1.8)	(24.4)	(24.4)
Financial liabilities				
Fixed rate interest rate swaps in respect of finance leases	17.8	17.8	25.5	25.5
Interest rate swaps in respect of borrowings	838.1	854.8	433.5	433.5
Fixed rate bank loans	331.1	359.6	802.2	800.9
Fixed rate sterling bonds	1,420.2	1,620.1	954.6	920.5
Index Linked sterling bonds	725.3	832.3	522.3	410.1
Bank loans under Senior Holdco facility	1,040.0	1,040.0	1,037.4	1,037.4
Finance leases	381.0	381.0	395.6	395.6
Other loans	126.0	126.0	20.2	20.2

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

All fair value measurements are therefore categorised as classified as level 1 under IFRS7 'Financial Instruments - Disclosures' as they are based upon quoted prices in active markets for similar instruments

Movements in the fair value of interest rate swaps in respect of borrowings of £421.3m were recognised in the income statement (71 weeks ended 31 March 2009 £433.5m). Movements in the fair value of fixed rate swaps in respect of finance leases of £4.3m were recognised in the statement of comprehensive income (71 weeks ended 31 March 2009 £25.5m). All interest rate swaps have maturity dates in excess of five years

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

Break date	2010 £m
Less than 1 year	-
1 to 2 years	66.3
2 to 3 years	-
3 to 4 years	61.2
4 to 5 years	-
Over 5 years	727.3
	854.8

Notes to the financial statements (continued)

for the year ended 31 March 2010

(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 YW and Kelda Holdco Ltd net debt to be fixed or index linked. At the financial year end the proportions were 141% and 109% respectively (2009 128% and 96%)

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.

The swaps total £1,289m and have an average life of 38 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 hedging instrument at 31 March 2010 was a loss of £854.8m (2009 £433.5m loss). The fair value movement in the year has been recognised in the income statement as an exceptional item.

Hedging of interest due under finance leases

YW has a number of finance leases with a number of counterparties lasting from inception for periods up to 34 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. YW 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. £70m 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, YW has entered into a number of floating to fixed rate interest rate swaps.

The hedging instrument is a perfect cash flow hedge against changes in 12 month LIBOR for the period of the swaps agreement because the dates of interest payments under the swaps are the same as the dates on which interest is due per the leasing agreements and the nominal value of the swaps that hedge the cost total less than the nominal lease values outstanding.

The fair value of the hedging instrument at 31 March 2010 was a £17.8m unrealised loss (2009 £25.5m unrealised loss).

The cash flow hedge was assessed to be effective at 31 March 2010 and an unrealised loss of £4.2m relating to the hedging instrument was included in equity (net of deferred tax) (2009 18.6m unrealised loss).

Notes to the financial statements (continued)

for the year ended 31 March 2010

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.

	2010	Weighted average exercise price	2009	Weighted average exercise price
	Options	£	Options	£
Outstanding at the beginning of the year/ (period)	632,497	6.86	1,740,058	5.76
Lapsed during the year/ (period)	(8,598)	7.04	(253,446)	6.16
Exercised during the year/ (period)	(295,918)	5.58	(854,115)	4.82
Outstanding at the end of the year/ (period)	327,981	6.20	632,497	6.86
Of which exercisable at the end of the year/ (period)	84,486	5.38	103,795	4.90

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

The options outstanding at 31 March 2010 had a weighted average exercise price of £6.20 (2009: £6.86), and a weighted average remaining contractual life of 1.0 years (2009: 1.4 years).

The fair value of the share options granted is estimated as at the date of grant using the Black-Scholes statistical model. There were no shares granted in 2010 or 2009. 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.

Notes to the financial statements (continued)
for the year ended 31 March 2010

24. Additional cash flow information

Analysis of movement in net debt

	On incorporation £m	On acquisition of subsidiary £m	Cash movements £m	At 31 March 2009 £m	On acquisition of subsidiary £m	Non cash movements £m	Cash movements £m	At 31 March 2010 £m
Cash and cash equivalents	-	-	137.6	137.6	11.7	-	99.6	248.9
Debt due within one year	-	-	137.6	137.6	11.7	-	99.6	248.9
Finance leases due within one year	-	-	(25.6)	(25.6)	(4.8)	-	(175.5)	(205.9)
	-	(5.8)	(0.2)	(6.0)	-	-	(6.5)	(12.5)
	-	(5.8)	(25.8)	(31.6)	(4.8)	-	(182.0)	(218.4)
Debt due after one year	-	(1,998.9)	(1,765.5)	(3,764.4)	(126.3)	(35.1)	126.3	(3,799.5)
Finance leases due after one year	-	(395.5)	5.9	(389.6)	-	-	21.1	(368.5)
	-	(2,394.4)	(1,759.6)	(4,154.0)	(126.3)	-	147.4	(4,168.0)
Net debt relating to continuing activities	-	(2,400.2)	(1,647.8)	(4,048.0)	(119.4)	-	65.0	(4,137.5)
Total net debt	-	(2,400.2)	(1,647.8)	(4,048.0)	(119.4)	-	65.0	(4,137.5)

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

Notes to the financial statements (continued)

for the year ended 31 March 2010

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

	2010 £m	71 weeks ended 31 March 2009 £m
Loss from continuing operations before taxation	(261.0)	(272.0)
Share of associates' and joint ventures' profit after tax	2.7	2.4
Investment income	(88.5)	(133.2)
Finance costs	311.5	341.4
Exceptional finance costs (non-cash)	423.8	433.5
Depreciation	199.0	235.7
(Increase)/decrease in inventories	(0.5)	2.4
(Increase)/decrease in trade and other receivables	(20.9)	20.6
(Decrease)/increase in trade and other payables	3.7	48.9
Pension contributions in excess of operating costs	(5.0)	(4.3)
Movements in provisions	0.9	0.7
Other movements	0.2	(0.4)
Cash generated by continuing operations	565.9	675.7

25. Commitments

	2010 £m	2009 £m
Contracts placed at 31 March	105.5	222.4

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

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

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

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

	2010 Land and buildings £m	2010 Other £m	2009 Land and buildings £m	2009 Other £m
Within one year	0.8	2.5	0.4	3.0
Between two and five years	1.9	0.6	0.6	1.9
After five years	2.0	0.3	-	-
	4.7	3.4	1.0	4.9

Notes to the financial statements (continued)

for the year ended 31 March 2010

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 2010 £m	Debtors balance with related parties 2010 £m	Loans to/(from) related parties 2010 £m	Sales to related parties 2009 £m	Debtors balance with related parties 2009 £m	Loans to/(from) related parties 2009 £m
Joint ventures						
Aberdeen Environmental Services (Holdings) Limited	5.8	-	(1.2)	6.6	0.6	0.6
Kelda Water Services (Defence) Limited	-	-	-	-	-	13.7
Kelda Water Services (Estates) Limited	3.6	-	-	6.2	6.6	-
Dalnada Water Ltd	-	-	-	0.5	0.3	7.7
Associates						
KeyLandmark Limited	-	-	(0.4)	-	-	(0.5)
Micklefield	-	-	0.1	-	-	0.1
Whitehall Landing Limited	-	-	(0.3)	-	-	(0.3)
Whinmoor Limited	-	-	0.2	-	-	0.2
Templegate	-	-	0.3	-	-	0.1
KeyLand Gregory Limited	-	-	1.2	-	-	1.6
KeyLand Gregory (Retail) Limited	-	-	1.5	-	-	1.1
Aire Valley	-	-	0.4	-	-	0.1
	9.4	-	1.8	13.3	7.5	24.4

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £1.5m (71 weeks ended 31 March 2009: £3.0m). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2010 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (71 weeks ended 31 March 2009: £nil).

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

As at 31 March 2010, KWS, a wholly owned subsidiary of the Group, had a 50% interest in Aberdeen Environmental Services Ltd (AES). Subsequently the interest in AES has increased to 100%. At 31 March 2009 KWS held a 50% interest in Kelda Water Services (Defence) Ltd (formerly Brey Services Ltd), a 50% interest in Dalnada Water Services Ltd (DWS), and a 45% interest in AES. During 2010 the interest in Kelda Water Services Defence and DWS increased to 100%.

Notes to the financial statements (continued)

for the year ended 31 March 2010

Compensation of key management personnel (including directors)

	2010 £m	2009 £m
Short-term benefits	3.7	2.8
Post-employment benefits	0.4	0.4
Termination payments	0.4	-
Share-based payments	0.1	0.1
	4.6	3.3

27. 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 accounts.

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

Group companies

as at 31 March 2010

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

Company balance sheet

as at 31 March 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Investments	3	3,252.6	3,279.8
Current assets			
Debtors	4	11.6	0.5
Cash and cash equivalents		0.1	-
Short-term deposits		57.5	67.5
		69.2	68.0
Creditors: amounts falling due within one year			
Other creditors	5	(599.5)	(779.1)
Net current liabilities		(530.3)	(711.1)
Total assets less current liabilities		2,722.3	2,568.7
Creditors: amounts falling due after more than one year			
Creditors		(42.2)	(62.0)
Long term borrowings		(1,040.0)	(1,037.4)
Net assets		1,640.1	1,469.3
Capital and reserves			
Called up share capital		1,473.5	1,473.5
Profit and loss reserve - surplus/ (deficit)	6	166.6	(4.2)
Total shareholders' funds		1,640.1	1,469.3

Approved by the board of directors on 14 July 2010 and signed on their behalf by



Kevin Whiteman
Chairman

Notes to the company financial statements

For the year ended 31 March 2010

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 (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006

The going concern basis has been applied in these financial statements

Taxation

Current tax

Current tax for the current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior periods 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 period 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.

Notes to the company financial statements

For the year ended 31 March 2010

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

Investments in subsidiaries

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

Financial instruments

Trade debtors and creditors

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

Interest bearing loans and borrowings

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

Derivative financial instruments

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

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

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

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

When the hedged highly 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 period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs

Notes to the company financial statements (continued)

For the year ended 31 March 2010

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

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

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

Pensions

The Company's employees participate in a number of Group defined benefit schemes as described in note 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.

2. Profit attributable to the parent company

The profit of the parent company was £170.8m (71 weeks ended 31 March 2009: £4.2m loss). Advantage has been taken of the exemption available under 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 14 July 2010.

Notes to the company financial statements (continued)

For the year ended 31 March 2010

3. Investments

	Shares in group undertakings £m	Loans to group undertakings £m	Total investments in group undertakings £m
Cost			
On incorporation	-	-	-
On acquisition of subsidiaries	3,063.6	216.2	3,279.8
At 31 March 2009	3,063.6	216.2	3,279.8
On acquisition of subsidiaries	0.8	(28.0)	(27.2)
At 31 March 2010	3,064.4	188.2	3,252.6

A list of the major subsidiaries of the Company can be found on page 79

4. Debtors

	2010 £m	2009 £m
Taxation	11.1	-
Amounts owed by subsidiary undertakings	0.5	0.5
	11.6	0.5

5. Other creditors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	594.8	773.5
Other creditors	4.7	5.6
	599.5	779.1

6. Reconciliation of movement in shareholders' funds

	Share Capital £m	Profit and loss reserve £m	Shareholders' funds £m
On incorporation	1,473.5	-	1,473.5
Loss attributable to shareholders	-	(4.2)	(4.2)
Shareholders' deficit at 31 March 2009	1,473.5	(4.2)	1,469.3
Profit attributable to shareholders	-	170.8	170.8
Shareholders' funds at 31 March 2010	1,473.5	166.6	1,640.1

Notes to the company financial statements (continued)

For the year ended 31 March 2010

7. Other information

The company had no employees at 31 March 2010 (2009 nil)

Details of directors' emoluments are set out in the directors' remuneration report of the group. No elements related specifically to their work in the company.

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

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

8. 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.

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

Statement of directors' responsibility for the company

For the year ended 31 March 2010

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,
- 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the parent company financial statements of Kelda Holdco Limited for the year ended 31 March 2010 which comprise the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 86, 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 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.

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 2010,
- 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.

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

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

- 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 2010



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