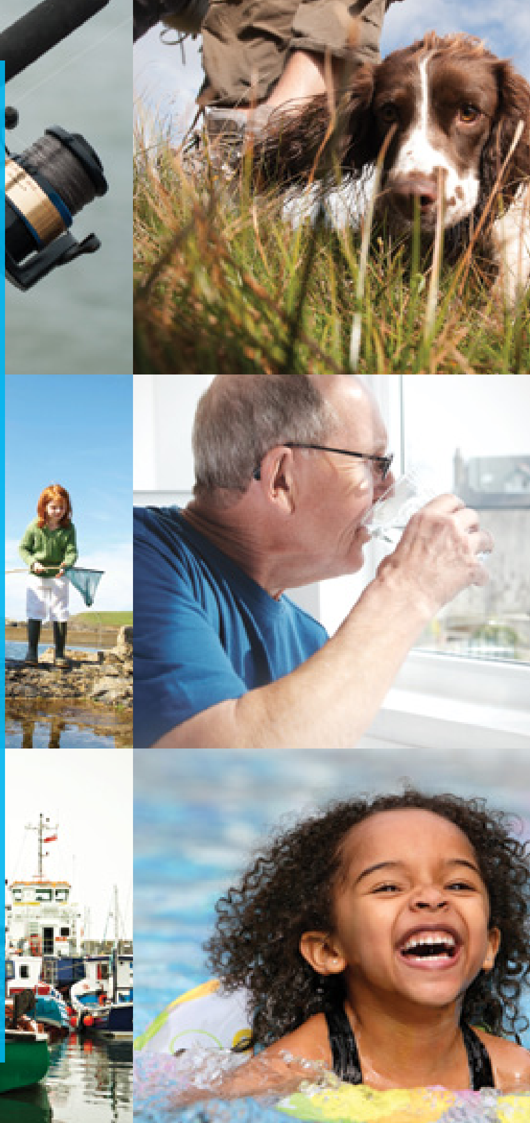
Yorkshire Water Services Limited

Annual report and financial statements

For the year ended 31 March 2013



YorkshireWater

‘Taking responsibility for the water environment for good’

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These results reflect good overall business performance. Over the past year we have kept operating costs under control, delivered yet another strong set of financial results and seen significant improvements in our operational performance. We have also made progress on reinvestment initiatives.

Our customers benefited from our continuing investment in the region's water supply system, with no restrictions being placed on their use of water supplies despite some 20 million customers in other parts of the UK being subject to hosepipe bans. Not only did the flexibility of our regional grid system ensure that public water supplies were unaffected, we were also able to utilise it to protect the environment. By increasing our abstraction from rivers and reservoirs in the north and west of our region, we were able to protect the underground aquifers in the east and south that were being affected by an environmental drought.

Our focus on meeting our leakage target also played its part in the company maintaining a healthy balance between supply and demand. This year we out-performed our regulatory target recording our lowest ever level of leakage. This activity will continue as part of our strategic objective to be a water efficient region.

After a poor start to the year in terms of pollution prevention, a new more targeted and proactive approach to education, inspection and repair work saw a significant upturn in our performance by the year-end. This was despite the fact that the dry spring was followed by one of the wettest summers on record, causing widespread surface water and fluvial flooding in the region. Pollution prevention is an area of focus for future years and plans are now in place to build on the effectiveness of this year's work.

The company also recorded the best year ever in terms of health and safety. This is an achievement which is of particular importance for management and plans have been put in place to build on this performance and to target future improvement.

During the year, the company has balanced risk and reward between investors and customers. This has resulted in the company reinvesting in a number of schemes, including innovative energy schemes and improvements to the water network, which will directly benefit customers. Over this Asset Management Period the company will have re-invested over £123m in such schemes over and above our capital programme allowed for in customer prices at the last price review.

The company has also chosen not to apply for an interim determination of K. Instead additional costs, including those associated with the transfer of sewers, are being met by the company.

Excellent progress was made in developing the detail behind our vision and six new strategic objectives, which we will be talking to customers and stakeholders about in detail as we prepare our business plan submission for Ofwat's PR14 price review process.

We believe it is essential that our plan has customer support and we have already invested a significant amount of time in gauging public opinion on what our future priorities should be and how much they are prepared to pay for the levels of service they require of us. This work is guided and informed by the independent Customer Challenge Group whose role is to ensure that customers' views are taken into account in developing the plan.

In 2013/14 we plan to widen out this engagement to the community of Yorkshire as a whole by carrying out our largest ever customer engagement exercise. We have made excellent progress in preparing for the price review and aim to continue our engagement with customers throughout the summer.

The publication of the Government's draft Water Bill in June was also a significant milestone for the industry, paving the way for greater retail competition for business customers, charities and other public bodies.

We welcomed the draft Water Bill and are actively supporting the industry's work to facilitate the introduction of the new, competitive market.

Kevin Whiteman
Chairman








Introduction

Yorkshire Water serves the Yorkshire region – from Whitby in the north to Chesterfield on the edge of Derbyshire in the south; and from Bridlington on the east coast to Ingleton in the west

Yorkshire Water manages the collection, treatment and distribution of the region's water. The company supplies around 1.3 billion litres of drinking water every day and then collects, treats and returns just less than 1 billion litres of waste water safely back into the environment.

Yorkshire Water serves a population of approximately 5 million people, as well as around 130,000 businesses.

Yorkshire Water's work in managing this natural resource for the benefit of its customers and the environment requires careful, long-term planning.

Over the period 2010 – 2015 the company will invest around £3.5 billion on operating and improving the region's water and sewerage infrastructure, providing a major boost to the local economy.

Business strategy

Yorkshire Water has a vision – 'taking responsibility for the water environment for good'.

The essence of the vision is doing what's right – for customers, colleagues, investors, partners and the environment.

To achieve the vision the company needs a plan and the plan has been named Blueprint. Blueprint is something everyone can contribute towards to make a difference.

Taking responsibility for the water environment for good

To deliver the plan, the company has developed six strategic business objectives (SBOs). These SBOs shape everything the company does:

Trusted company
The way Yorkshire Water does business means its products, services and promises are trusted by all our stakeholders, now and in the future.

Safe Water
Yorkshire Water protects public health and makes sure water is safe to drink. Yorkshire Water ensures that water does not harm customers or communities at any point in the process.

Excellent catchments, rivers and coasts
Yorkshire Water maintains and improves the water environment from source to sea and influences others to do the same.

Water efficient regions
The way Yorkshire Water operates and influences others creates water efficient regions.

Sustainable resources
Yorkshire Water uses sustainable resources, gets the most out of them and reduces emissions and waste.

Strong financial foundations
Yorkshire Water delivers services to customers at a price they are willing and able to pay, whilst providing investors with returns that attract long-term investment.

Business performance

Explanation of key performance indicator measures (KPIs) is provided in the Appendix to the Business Review on pages 22 to 23.

Trusted company: part of our blueprint

Strategic objective:
The way Yorkshire Water does business means its products, services and promises are trusted by all stakeholders, now and in the future

	Target	Current year	Previous year
Service Incentive Mechanism (SIM)	77	78	77
Serviceability – water infrastructure	Marginal	Stable	Marginal
Serviceability – water non-infrastructure	Stable	Stable	Stable
Serviceability – sewerage infrastructure	Stable	Stable	Stable
Serviceability – sewerage non-infrastructure	Stable	Stable	Stable

Customer service is an area the company always seeks to excel in and a number of new initiatives were launched in 2012/13 aimed at improving performance.

A new ‘customer promise’ was developed and rolled out across the business, with colleagues encouraged to work together to deliver the best possible outcomes for customers.

The emphasis is on being proactive and easy to deal with, with a view to fixing things first time.

In December 2012 the company achieved its highest ever score in Ofwat’s Service Incentive Mechanism (SIM) survey.

The CCWater annual tracker survey for 2012 demonstrated that for water, 95% of customers say they are satisfied with Yorkshire Water’s overall drinking water service and 94% with the wastewater service. It also showed that 87% of customers agree that the company’s charges are fair and affordable compared to the industry average of 74%.

In March 2013 the company came top of the utilities sector for customer service in the Institute of Customer Service’s twice-yearly customer satisfaction index (UKCSI). The UKCSI asks customers to rate organisations on key attributes of customer service including professionalism, quality, efficiency, ease of doing business, problem-solving, timeliness and the way complaints are handled.

The company also recorded its best ever performance around annual billing, answering 98% of all customer contacts.

The company’s strong record for providing good customer service was just one of many factors that saw it retain its ‘gold’ status in Business in the Community’s annual index of corporate reporting. The index benchmarks companies across a range of disciplines such as community engagement, corporate governance and supply chain management.

During 2012/13, a major programme of engagement was also implemented to build a greater understanding of the company and its activities specifically amongst investors and lenders.

Several leading financial institutions were invited to Yorkshire to tour Esholt Waste Water Treatment Works near Bradford which the company plans to turn into the UK’s first completely energy self-sufficient plant of its kind.

The company saw an overall improvement in levels of serviceability in 2012/13.

The most noticeable improvement was in water infrastructure serviceability, which moved from marginal the previous year to stable.

This was as a result of an increased focus on tackling bursts and reducing the number of DG3 interruptions to supply.

Safe water: part of our blueprint

Strategic objective:

Yorkshire Water protects public health and makes sure water is safe to drink. Yorkshire Water ensures that water does not harm customers or communities at any point in the process

	Target	Current year	Previous year
Sewer flooding (no. of incidents)	129	155	75
Water quality – overall compliance	99.94%	99.93%	99.95%

Yorkshire Water's customers continue to receive water of an extremely high quality.

In 2012/13 99.93% of samples met the UK's stringent, health-related standards.

However, two areas of focus have been identified which the company is now proactively working to address.

Firstly, several new measures have been put in place to improve compliance at treated water service reservoirs. These include:

- improved sampling facilities at 62 sites;
- the installation of an additional 20 secondary chlorination units at key service reservoirs and pumping stations; and
- the introduction of an accelerated and enhanced inspection programme.

Secondly, in common with other water companies across the UK, Yorkshire Water has also seen an increase in the number of failures for metaldehyde, a chemical used in the agricultural industry.

Among the actions being undertaken are a greater emphasis on effective catchment management, assessment of the possibility of improving existing treatment processes to remove metaldehyde and research and development into future treatment options.

There were 14 regulatory sample failures for water treatment works compliance in the calendar year 2012, against a target of 15. This is an improvement on the previous year which recorded 20 failures.

The very wet weather experienced during the summer and autumn meant that achieving regulatory targets to reduce sewer flooding was extremely challenging.

The number of properties flooded as a result of other causes was 454. Although performance remained within the serviceability upper control limit, this was a deterioration on the previous year's outturn of 363.

In the meantime, the company is continuing with its focus to reduce the number of blockages that occur in areas where there is a high density of cellared properties, as this is where more than 80% of reportable incidents occur.

Through the "Doing The Dirty" campaign, the company continues to work with customers to educate them on what should and should not be disposed of via household sinks and toilets.

The company had its best year ever in terms of health and safety, outperforming all its key performance indicators and in particular achieving a RIDDOR incidence rate of 5.2 (number of RIDDOR incidents per 1,000 full time equivalent employees (FTE) over a rolling 12 months). Focusing on key organisational capabilities such as getting the basics right, leadership, communication, engagement and continuous improvement has achieved improving trends across all serious injury types (RIDDOR, major, lost time etc.) and a greater than 100% increase in proactive near miss reporting. The plans reflect the company's desire to continue to work harder in this area and to also increase our focus on health and wellbeing risk and performance.

Excellent catchments, rivers and coasts: part of our blueprint

excellent

Strategic objective:
Yorkshire Water maintains and improves the water environment from source to sea and influences others to do the same

	Target	Current year	Previous year
Pollution incidents (sewerage) **(no. of incidents per 10,000km of sewer)**	50.00	82.68	95.10
Serious pollution incidents (sewerage) **(no. of incidents per 10,000km of sewer)**	1.50	1.63	4.25
Pollution incidents (water) **(no. of incidents per 10,000km of sewer)**	0.50	3.24	6.47
Discharge permit compliance (%)	99.00	97.31	97.31
Disposal of sludge (%)	100.00	99.72	100.00

The company put significant resources into pollution prevention in 2012/13 and it remains a top priority.

There were seven Category 2 pollution incidents during the calendar year 2012, against a target of 12 for Category 1 and Category 2 incidents. There were also 247 Category 3 pollution incidents, against a target of 340.

The company's focus continues to be on proactive sewer network inspections and maintenance; sewer rehabilitation and post incident investigation.

Again, the particularly wet weather posed significant challenges as it prevented some inspection and improvement activities and meant that often resources were redirected to tackle more pressing incidents.

The number of waste water treatment works failing consent during the calendar year 2012 was eight, against a target of eight. This gave a discharge permit compliance rate of 97.31%. This was the same performance as in 2011. Performance is considered amber against industry average calculations. The number of large sites which failed reduced in response to actions taken last year to improve their performance.

An action plan is now in place to reduce the number of failing works from eight to six or better, which is in line with stable serviceability reference levels. It should be noted that these actions will not deliver green status on the KPI measure applied by the Environment Agency (EA). To record green, Yorkshire Water would be required to record performance greater than or equal to 99%, which requires two or less failing works. This performance level has not been achieved to date and is equivalent to Yorkshire Water's lower reference level for serviceability.

In 2012, sludge was disposed of in an unsatisfactory manner at six sites. This equated to 0.28% of the total sewage sludge disposed of during the year – 0.343 thousand tonnes of dry solids (ttds) unsatisfactory of 124.2 ttds disposed of.

Two of these fields to which sludge was disposed of had zinc levels over the limits stated in the Sludge (Use in Agriculture) Regulations 1989 and four are currently showing no soil analysis (a criterion of the above Regulations).

A range of steps are being taken to address this issue including tighter monitoring and reporting, as well as the introduction of a new audit process.

On the East Coast, major engineering work continued in Scarborough as the company continues to improve its waste water network to help meet new bathing water standards set by the European Revised Bathing Water Directive.

Yorkshire Water is working closely with the EA and a range of other organisations to ensure that when the new standards are implemented in 2015, the region has some of the best bathing waters and beaches in Europe. The company is the only one funded to go for the highest 'excellent' standard.

During the year, major engineering also started in Bridlington, which is again expected to provide a boost to the local economy and tourism in the area.

In South Yorkshire, the company continued to make significant investment in the water and waste water treatment works on the River Don.

Yorkshire Water and a range of other organisations with an interest in the river have formed a new partnership – the Don Network – with the view to improving the quality of the river and encouraging fish and wildlife populations to return.

In 2012, the company started work on a £78 million scheme to upgrade Blackburn Meadows Waste Water Treatment Works in Sheffield. As part of the scheme, the company has reinvested £25m of outperformance to install a new anaerobic digestion plant that will improve the way it recycles sludge and reduces the company's carbon footprint.

Water efficient regions: part of our blueprint

Strategic objective:
The way Yorkshire Water operates and influences others creates water efficient regions

	Target	Current year	Previous year
Water Supply Interruptions (hours per property served)	0.32	0.17	0.32
Total leakage (Mega litres per day)	297	265	274
Security of supply index (%)	100	100	100

Despite the EA announcing in April 2012 that parts of Yorkshire were experiencing an environmental drought, Yorkshire Water used its regional water supply system to ensure its customers were unaffected.

In order to protect the underground aquifers in East and South Yorkshire, the company increased the use of water taken from reservoirs and rivers in the west and north to meet customers' demands.

While in other parts of the UK more than 20 million people were subject to hosepipe bans, there were no such restrictions on customers' use in Yorkshire.

The dry spring was brought to an abrupt end in June, which saw the start of one of the wettest summers for more than a century. In September, the region experienced 169% of the usual long-term average rainfall.

This also tested the company's operational resilience, with several water and waste water treatment works being inundated, and numerous instances of surface water flooding.

During the year, the company recorded its lowest ever levels of leakage and significantly out-performed its regulatory target of 297 ML/d. The company reinvested an additional £25m of operating costs during the year to improve performance in this area.

The company also continued to provide customers with help and advice to reduce their overall water use. As a result, customers have helped to achieve a daily saving of 2.05 ML/d.

The Automatic Meter Reading (AMR) programme saw the company out-perform the regulatory target to install 717,000 new units in the year with the installation of 724,823, an out-performance of 7,823.

Sustainable resources: part of our blueprint

Strategic objective:
Yorkshire Water uses sustainable resources, gets the most out of them and reduces emissions and waste

	Target	Current year	Previous year
Greenhouse gas emissions – kilotonnes of carbon dioxide equivalent (CO_2e)	401	386	394

In December 2012, the company was delighted to be awarded the Carbon Trust Standard. The standard is awarded for those organisations that can successfully demonstrate that they are effectively managing and reducing their carbon footprint.

It demonstrates Yorkshire Water's commitment to overcoming environmental challenges and is the benchmark for carbon accreditation.

During the assessment there was a thorough external audit carried out by the Carbon Trust, where the company had to demonstrate management commitment coupled with evidence of absolute reductions to emissions.

Over the past 12 months, the company reduced its greenhouse gas emissions by 1.8% on the previous year.

Between 2013 and 2015 we will be investing £85m in energy and carbon projects at around 170 of the company's operational sites.

A major internal awareness campaign – CO2llaborate – was launched to encourage colleagues to work together to use less energy and resources, and in the process save money. Colleagues have been challenged to think about the impact of their everyday activities on the environment (from driving to printing to operating assets) and come up with their own ideas as to how they could use less energy in their working day.

Strong financial foundations: part of our blueprint £

Strategic objective:
Yorkshire Water delivers services to customers at a price they are willing and able to pay, whilst providing investors with returns that attract long-term investment

	2013	2012
Operating profit (£m)	331.5	303.3
Net debt (£m)	3,423.7	3,159.1
Credit rating	Baa3	Baa3
Interest cover	1.42	1.39
Adjusted net debt to Regulatory Capital Value (RCV)	79.8%	79.7%

Turnover increased by 4.8% to £936.2m (2012: £893.6m), compared with an average tariff increase of 6.6%. The favourable impact of the average increase in tariffs was partially offset by a reduction in demand as a result of continued water conservation, an exceptionally wet summer period and higher commercial decline compared to 2011/12, as well as domestic customers opting to switch from unmeasured to measured tariffs. Of the £936.2m, £434.4m related to water services, £492.6m related to sewerage services and £9.2m was from non regulated business.

Operating profit increased by 9.3% to £331.5m (2012: £303.3m), driven by the increase in income noted above. Operating profit for 2011/12 is shown after £9.6m of exceptional costs.

Operating costs have increased by £14.4m or 2.4%. The increase is due to: the impact of inflation on input costs (£11.5m) and higher depreciation as a result of significant capital investment (£11.7m), offset by a cost reduction as the exceptional leakage costs relating to the prior year did not recur (£9.6m). The remaining movement of £0.8m is the net impact of other small cost movements across the business.

Following the Government's statutory transfer of private sewers into water company ownership on 1 October 2011, the company has chosen not to ask Ofwat for permission to pass on the additional operating costs to customers. The company has therefore borne the impact of an additional £4.0m (2012: £5.0m) operating costs in relation to the transfer.

Net interest payable before exceptional items decreased from £234.8m in 2011/12 to £193.3m in 2012/13. The year on year movement has been largely driven by a reduction in the RPI accrued on the index linked swaps. RPI accrued during 2012/13 on the index linked swaps was £45.5m (2012: £63.8m). In addition there has been a change to the discount rate applied to the index linked swap bullet payment at the end of the term which has reduced the interest charge by £14.0m compared to 2011/12.

Yorkshire Water holds certain index linked swaps with a notional value of £1,289.0m which had an adverse market value of £1,729.0m at 31 March 2013. At the balance sheet date it was concluded that due to the levels of floating rate debt held, which now offset the floating rate "receipt" part of the swaps, that they no longer constitute an onerous contract under FRS12. The onerous contract provision held of £48.0m has therefore been released in 2012/13 (see note 13 to the financial statements on page 67).

Corporate structure

Yorkshire Water is part of the Kelda Holdings Limited group of companies (the Group). In July 2009 Yorkshire Water established a financing structure known as a "whole business securitisation" (WBS).

The WBS enhances the creditworthiness of Yorkshire Water. This means that lenders see the company as being less risky and are therefore prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case. Customers share the benefit of the lower rates of interest because the rates at which the industry borrows are factored into prices at the following price review.

This WBS places a protective ring-fence around Yorkshire Water's business which includes: its operations; the way it trades with other group companies; and its financing. The protections include limits on the amount that Yorkshire Water can borrow, the amount of dividends it can pay, its ability to outsource activities or engage in non-regulated activities and the ability to lend money to other Kelda companies. They also require profits to more than cover the amount of interest that Yorkshire Water pays.

Because of the protections within the securitised model, companies can finance themselves with increasing amounts of debt. This means that they pay less corporation tax (for the reasons explained in the Taxation and Capital Structure section below). Yorkshire Water has passed this benefit on to customers throughout 2010-2015.

In implementing its WBS, Yorkshire Water established companies incorporated in the Cayman Islands.

The raising of debt under a WBS by a UK company, in respect of debt used to facilitate an acquisition (e.g. Kelda Group plc's acquisition in February 2008), is not possible for those UK companies allowed to issue listed corporate debt. This is not the case for companies incorporated in the Cayman Islands and is the reason why the Cayman Islands is now a commonly used jurisdiction for establishing WBSs (not just for businesses from the UK, but for businesses from elsewhere around the world).

As a result of this, in July 2009, Yorkshire Water established three companies incorporated in the Cayman Islands. These companies are:

- Yorkshire Water Services Bradford Finance Limited (issues new corporate debt);
- Yorkshire Water Services Odsal Finance Limited (issuer of legacy corporate debt); and
- Yorkshire Water Services Odsal Finance Holdings Limited (a non-trading, holding company).

The reason for setting up the Cayman Islands structure has now passed as the acquisition debt has been repaid.

All three companies are wholly and exclusively resident for tax in the UK This means that:

- The three Yorkshire Water Cayman Islands incorporated companies file their tax returns only with the UK's HM Revenue & Customs; and
- Any profit or loss made by the three Yorkshire Water Cayman Islands companies is subject to UK tax and not to any other jurisdiction's tax.

The Group does contain a number of other companies that are incorporated in jurisdictions other than the UK. These are described as follows:

- The ultimate parent undertaking within the Group, Kelda Holdings Limited, is incorporated in Jersey. Although Kelda Holdings Limited is incorporated in Jersey, the country in which it is wholly and exclusively resident for tax is the UK. The reason why the company is incorporated in Jersey is because Jersey law allows greater choice than the UK as to the manner in which distributions can be made to shareholders.
- The Group also has a subsidiary incorporated in the Netherlands (Yorkshire Water Holdings BV). Again, this company's country of tax residence is wholly and exclusively the UK. This company is a legacy from previous activity and does not trade.
- The Group does have subsidiaries in the USA (Kelda Group Inc. and KGI Bridgeport Company), which administer a single sewerage contract in Bridgeport, Connecticut which terminates in December 2013. These companies are resident in the USA for tax. There is no trading with the rest of Kelda.
- The Group has a small captive insurance company in the Isle of Man (Ridings Insurance Company Limited) that insures a small proportion of Yorkshire Water risk. The company is resident for tax purposes in the Isle of Man.
- Finally, the Group has a dormant subsidiary incorporated in Jersey (YW Employees Trustees Limited) that is a legacy from the period when Kelda was a public limited company and employees had a UK HM Revenue & Customs approved share scheme. The company has been dormant since February 2008.

A presentation is available on the company's website which clearly explains the structure described above. See **www.yorkshirewater.com/about-us/our-performance/reports-and-accounts.aspx**

Taxation and capital structure

Under UK tax law the starting point for calculating taxable profit is "profit before tax" as shown in the profit and loss account in the financial statements. Profit before tax is arrived at after deducting all interest costs incurred on the company's borrowings. Yorkshire Water has significant borrowings to fund its programme of capital expenditure and in accordance with UK tax law, interest costs on these borrowings are fully tax deductible. These interest costs reduce Yorkshire Water's taxable profits and the reduction in tax payable is reflected in customer bills.

UK tax laws also require that a further adjustment must be made to profit before tax. This is because UK tax law does not allow a tax deduction for depreciation as it has been charged in the financial statements, but instead allows a tax deduction for what are known in UK tax law as "capital allowances".

Yorkshire Water's assets are significant and in the past, due to the rate at which capital allowances are given under UK tax law, Yorkshire Water has received a timing benefit that has reduced its taxable profit. Since this benefit is only a timing difference, the tax liability that will become payable upon the reversal of this timing difference is provided within the deferred tax provision in the financial statements.

The financial statements show a tax credit of £62.3m. This is shown on page 53 and analysed within note 4 to the financial statements on page 60. £58.4m of this amount relates to the reduction in the accounting provision for deferred tax referred to above. This does not in any way represent either repayments of corporation tax by HM Revenue & Customs or reductions in amounts of corporation tax owed to HM Revenue & Customs and is exclusively as a result of a change in an accounting estimate.

Under a long established UK tax law concept known as "Group Relief" Yorkshire Water can offset losses, including those interest costs incurred by other Group companies against its taxable profits.

At the time of Kelda Group plc being acquired in February 2008, its new shareholders chose to fund some of the acquisition with bonds (i.e. corporate debt). These bonds were issued via Kelda Eurobond Co Limited. This is a Group subsidiary which is incorporated and resident for tax in the UK. This bond debt is considered by the UK's HM Revenue & Customs as meeting the eligibility requirements of the "quoted Eurobond exemption".

The benefit of bonds being eligible for the quoted Eurobond exemption is that there is no requirement to withhold UK tax from interest paid on the bonds to investors. Although investors in private equity funds would generally be eligible for exemption from UK withholding tax under international tax treaties between the UK and other jurisdictions, there are practical and administrative issues for fund managers in trying to arrange treaty clearances for a large number of investors in a diverse range of jurisdictions. The application of the UK tax regime's quoted Eurobond exemption avoids these practical and administrative issues and is an important feature of the UK tax system in terms of making the UK an attractive jurisdiction for inbound investment.

The bonds issued by Kelda Eurobond Co Limited are listed on the Channel Islands Stock Exchange ("CISX"). The CISX is regarded by the UK's HM Revenue & Customs as a recognised stock exchange for the purposes of the quoted Eurobond exemption. Listing on the CISX was chosen rather than the London Stock Exchange ("LSE") for ease of administration: since the bonds in question are not traded, the greater administrative requirements imposed by the LSE are not necessary.

Yorkshire Water is subject to other taxes and last year the most significant of these were:

- Business rates of £55m paid to local authorities;
- Employer's National Insurance contributions of £7.5m. In addition, the company pays £13.5m of Pay As You Earn ("PAYE") to HM Revenue and Customs on behalf of over 2,500 employees; and
- Carbon taxes, including the Carbon Reduction Commitment of £3.9m.

Long-term borrowings

During the year, Yorkshire Water secured £75m of funding from the European Investment Bank with a term of 15 years. The company also raised an additional £300m of new debt through its subsidiary company, Yorkshire Water Services Bradford Finance Limited as follows:

- In May 2012 £50m of index-linked debt was issued at a rate of 1.803% with a term of 30 years, the last 10 years having an amortising (repayment) profile.
- In August 2012 £250m of Class A fixed rate bonds with a 17 year term were issued with a semi-annual coupon of 3.625%. Demand for the bonds was significant. With orders from over 90 investors totalling £1.2bn, the issuance was almost 5 times over subscribed. The full £250m was swapped into floating rates for the full 17 year term.

The total net debt at 31 March 2013 was £3,423.7m (2012: £3,159.1m), which includes an upstream loan to Kelda Holdco Limited.

£256.6m of distributions have been made to the parent company during the year (2012: £192.2m), of which £78.1m (2012: £63.4m) was distributed to Kelda Holdco Limited in order to allow Kelda Holdco Limited to make an interest payment and loan repayment on its loan from Yorkshire Water. Net distributions from Yorkshire Water were therefore £178.5m (2012:£128.8m). See note 5 to the statutory financial statements for further details.

Kelda Group pension plan

During 2012/13 the company undertook two major consultations into proposed changes to the Kelda Group Pension Plan.

The changes were proposed to secure a sustainable future for all those who contribute towards and benefit from the plan – customers whose charges help finance the plan; colleagues who invest in the plan and the company which makes its own contributions.

The aim of the review was three-fold:

- Reduce the deficit in the plan;
- Ensure the deficit does not re-emerge; and
- Continue to provide colleagues with a high quality pension.

Following the first consultation, the company made several significant changes to its initial proposals based directly on feedback from members, trade unions and management representatives.

The company's revised proposals, which were supported by the Pension Trustee and Independent Body, were then subject to a second period of consultation and implemented on 1 April 2013.

A key feature of the deficit reduction plan is a provision for the company to increase its contributions should RPI average more than 2.8%. This means that the burden of finding any additional funding necessary to sustain the plan is borne by the company, not members or customers, should RPI be above 2.8%.

Revaluation of fixed assets

Certain classes of the company's tangible fixed assets were revalued at 31 March 2012. Such valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. The revaluations during the year ended 31 March 2012 resulted in a net revaluation surplus of £1,607.9m. The directors have reviewed the valuation at 31 March 2013 and consider that no impairment or uplift is required in the financial statements.

Accounting policies

The company financial statements have been prepared in accordance with the accounting policies described in note 1 to the financial statements.

Treasury policy

The company's treasury operations are controlled centrally for the Group by a treasury department which operates on behalf of all companies controlled by the ultimate parent. Activities are carried out in accordance with approved board policies, guidelines and procedures. Treasury strategy is designed to manage exposure to fluctuations in interest rates, preclude speculation and to source and structure the Group's borrowing requirements.

The Group uses a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance its operations. Any funding required is raised by the Group treasury department in the name of the appropriate company, operating within the debt covenants. 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 and Poor's and Moody's respectively.

Financial risk management

The company has an executive team (Kelda Management Team, 'KMT'), which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

The operation of the treasury function is governed by policies and procedures, which set out guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the company.

The company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, price risk, liquidity risk, interest rate risk and exchange rate risk. Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the company's activities. The company actively maintains a broad portfolio of debt, diversified by source and maturity and designed to ensure the company has sufficient available funds for operations.

The company is exposed to commodity price risk, especially energy price risk, as a result of its operations. The company aims to manage its risk by fixing contract prices where possible.

Key relationships

The following key relationships have an influence over the business. As described on page 43, the company engages in a proactive communication programme with all its stakeholders.

- Key suppliers and contractors. The company relies on contract partners to support the delivery of the capital programme and to carry out repair and maintenance activity across the company's network of fixed assets. The company has spent around £450m with contractors during 2012/13. The company has 11 key contractors with whom it has spent over £10m each. The company's policy is to establish trading arrangements, which are made following an open non-discriminatory, competitive bidding process. Procurement processes reflect the company's corporate responsibility commitments and, where applicable, comply with the requirements of the Utilities Contracts Regulations 2006 (as amended).
- Regulators. The company works closely with all its regulators, which include Ofwat, the Drinking Water Inspectorate and the EA. Ofwat is responsible for setting the prices which Yorkshire Water charges its customers.
- Customers. Yorkshire Water are prohibited from disconnecting domestic customers. The company therefore works with customers who are struggling to pay their bill and has several initiatives in place aimed at helping these customers, as described on page 29. Additionally, gaining customer support is an important factor in determining the company's investment programme for the next five years. During 2013/14 Yorkshire Water will be carrying out its biggest ever customer engagement campaign to help inform its business plan submission to Ofwat.

Looking forward

The next 18 months are of significant strategic importance to the water industry.

Later this year the Coalition Government is expected to publish further details of its Water Bill which aims to improve competition and customer choice in the water sector.

The legislation is designed to stimulate new investment and innovation in the UK's water infrastructure and to make the sector more resilient in the face of natural hazards such as floods and drought.

Yorkshire Water will continue to play its role in helping to shape the final Bill to ensure it delivers maximum benefit for the company's domestic and business customers and the environment.

At the same time, the company will continue to talk to all those individuals and organisations with a stake or interest in the business to ensure it submits the best and most appropriate business plan for Ofwat's PR14 price review.

In these tough economic times, the company has already conducted a great deal of research to ascertain customers' willingness to pay for future investment in the industry and intends to build on this in 2013/14 by rolling out its biggest ever consultation exercise to date.

If the company can strike the right balance between the need for greater efficiency, the need for further investment and customers' ability to pay for future improvements, this will give the perfect platform on which to deliver the company's longer-term aspirations and fulfil its vision of taking responsibility for the water environment for good.

The company must ensure that it is spending money in the right way, on the right things. Affordability is a major issue.

So the starting point for Yorkshire Water is to challenge itself to become even more efficient and innovative. To this end, in 2013/14 the company will be broadening the scope of its Operating For Excellence business change programme to all corners of the company, not just frontline operational business units.

By becoming more operationally and financially efficient the company aims to unlock its potential to excel in areas such as pollution prevention, customer service and water quality.

In addition, one of the company's core values is that it recognises it cannot be successful on its own, so there will be a much greater emphasis on partnership working in the future to ensure Yorkshire Water can achieve its strategic business objectives.

Having the trust and support of customers and key stakeholders will be a critical success factor going forward.

There will be significant challenges too on the way to achieving the company's long-term vision – population growth, climate change and affordability to name but three. Yorkshire Water looks forward to working with all interested parties to address these issues in the future.

Principal risks and uncertainties

Principal risks are classified in five categories:

- Statutory responsibilities;
- Business development;
- Environmental;
- Financial; and
- Operational.

Statutory responsibilities

Risk and Compliance Statement:

In the company's annual Risk and Compliance Statement to Ofwat, the board has identified the following material or potentially material risks.

- Sewer flooding;
- Water quality;
- Pollution incidents;
- Discharge permit compliance; and
- Disposal of sludge.

The Risk and Compliance Statement 2013 covers the reporting year 1 April 2012 to 31 March 2013 for all obligations, with the exception of environmental compliance and water quality parameters, which rely on a calendar year report, for which the statement covers obligations during the period 1 January 2012 to 31 December 2012.

Mitigation plans have been put in place to tackle all the areas of potential risk, details of which can be obtained at **yorkshirewater.com/about-us/our-performance/reports-and-accounts/company-compliance-certificate.aspx**

All our financial and non-financial KPIs are listed on pages 8 to 13 of this report.

Failure to deliver the company's capital investment programme

Yorkshire Water requires significant capital expenditure for additions to, or replacement of, plant and equipment. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant price review period and the associated funding costs and operating costs.

If the company was unable to deliver its capital investment programme at expected expenditure levels, was unable to secure the expected level of efficiency savings, or the programme fell behind schedule, profitability may suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future Periodic Reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. The company's ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10% of turnover or other sanctions.

A Board Capital Investment Committee (BCIC) with delegated power from the board, see page 40, monitors the capital programme delivery and provides strategic direction.

Business Development

Draft Water Bill

On 8 May 2013, it was announced in the Queen's Speech that the Coalition Government would be consulting on a new Water Bill during 2013/14.

The Bill allows for greater freedom for businesses to choose their water supplier and is designed to make companies more responsive to the needs of customers. This could impact on future revenues, either in a positive or negative way.

Reforms will mainly apply to England and Wales but will also allow for a joint water and sewerage retail market with Scotland.

Yorkshire Water welcomes the introduction of greater retail competition and is currently providing pro bono communications support to the High Level Group and Programme Delivery Board that have been established to facilitate the changes.

Yorkshire Water is also developing a strategy to ensure it remains the supplier of choice in the region.

The PR14 Price Review

Ofwat's PR14 Price Review is of strategic importance to the company as it will determine prices and levels of investment for the period 2015 to 2020.

This year Yorkshire Water will be carrying out its biggest ever customer and stakeholder engagement campaign to help inform its business plan submission.

This campaign will complement the work already carried out in 2012/13, which saw the creation of an independent Customer Forum and in-depth research into customers' willingness to pay for particular improvements and investment.

When the business plan has been finalised, Ofwat will ask the Customer Forum to look at how the company has consulted with its customers and check that they have been happy with the process. The Customer Forum is an independent group of invited experts who represent the needs of customers and of the environment.

Water companies' business plans must be submitted in December 2013, with Ofwat determining future prices and levels of investment in 2014 or early 2015.

Environment
Climate change

Yorkshire Water recognises the need to enhance the resilience of its assets and services to today's weather and to tomorrow's climate. This goes to the heart of the company's vision: **taking responsibility for the water environment for good.**

The company has seen how drought, floods and cold winters have impacted utility providers in recent years. These extreme weather events have highlighted current levels of resilience to weather and areas of vulnerability.

In the future, assets and services are likely to be challenged by more frequent and more severe extreme weather events because the climate is changing. The company needs to consider both past events and future projections to ensure robust, long-term decision-making.

This is important now because assets built today will be in operation for many decades to come.

There is overwhelming scientific evidence that the climate is changing. Latest assessments confirm that climate change and extreme weather pose strategic risks to the company, potentially impacting on every part of the business in both the short and long term.

In the long term, the cost of managing these risks in order to maintain services in a changing climate could be large. To avoid significant price shocks for customers and investors, the company has developed a long term climate change adaptation and mitigation strategy. It is also developing a comprehensive statement of needs for extreme weather resilience and climate change in our PR14 price review submission.

Financial
Commodity prices

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

Energy and other commodity costs may rise at rates above RPI between now and 2020.

To mitigate this, we are looking to reduce our reliance on grid electricity and use renewable energy where appropriate and economically viable. The company continues to seek long-term supply relationships where appropriate.

Changes in the rate of inflation

The company's turnover is linked to the underlying rate of inflation (RPI) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are likely to impact on the operating costs and capital expenditure of the company and on customers' ability to pay any increased charges.

To mitigate this risk the company maintains levels of index linked debt and swaps therefore as RPI reduces and income reduces, the interest charge will also reduce.

Construction Output Prices Index

Under the 2009 Final Determination the allowed annual capital expenditure was indexed using the Construction Output Prices Index ("COPI"). There is a risk that the actual costs of capital investment in the AMP5 Period will be higher than the ex-post COPI-adjusted allowed capital expenditure, resulting in a revenue penalty applied by Ofwat in the Periodic Review process for the next AMP Period. This may arise where contract conditions do not allow for index tracking (e.g. fixed cost contracts or contracts which are linked to RPI).

To mitigate this risk, where possible construction contracts have been linked to COPI. Additionally the company's target level of gearing is adjusted to reflect any movements in COPI compared to RPI to eliminate any impact on RCV (see definition on page 22) in the subsequent price control period.

Non-recovery of customer debt

Non-recovery of customer debt is a risk to Yorkshire Water and may cause profitability to suffer. This risk is exacerbated by the fact that water companies are prohibited from disconnecting domestic customers who do not pay. Nor can water companies limit domestic customers' supplies with the intention of enforcing payment. Allowance is however made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable.

To mitigate this risk the company operates a range of schemes designed to help customers who genuinely cannot pay their bills, while having strong processes in place for overall debt collection.

Operational

Asset serviceability

Every year Ofwat publishes an assessment of Yorkshire Water's water and sewerage infrastructure and non-infrastructure serviceability. Failure to deliver "stable" serviceability could lead to an adverse adjustment in future price determinations, which could have a material adverse impact on the business, financial condition or operational performance of the company. Failure may result in fines of up to 50% of the relevant capital maintenance budget, or other sanctions, and further increases in capital expenditure and operating expenditure.

Sewer flooding

Yorkshire Water's combined sewerage systems can, during prolonged heavy rainfall, reach their hydraulic capacity resulting in flooding. As it is not possible to forecast accurately the occurrence and effects of sewer flooding, forward planning and the making of full and reliable provision for the effects, or the alleviation of the risk, of sewer flooding is difficult. The financial costs of measures required to deal with sewer flooding, or measures designed to alleviate the risk of sewer flooding to properties which become at risk, may therefore not be taken into account fully in a Periodic Review, which could have a material adverse impact on the business, financial condition or operational performance of the company.

Water shortages

In the event of water shortages, additional costs may be incurred by Yorkshire Water in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect its business, results of operations, profitability or financial condition.

In addition, restrictions on the use or supply of water (including hosepipe bans and Drought Orders or Drought Permits) may adversely affect the company's turnover and may, in very extreme circumstances, lead to significant compensation becoming due to customers because of interruptions to supply, both of which could have a material adverse impact on the business, financial condition or operational performance of the company.

Potential water shortages may be exacerbated by reductions in the volume of water licensed to be abstracted imposed by the EA to mitigate environmental damage or to achieve sustainable levels of abstraction. Costs may be incurred by Yorkshire Water in implementing replacement sources and abstraction charges could be increased by the EA to cover compensation payments made to other abstractors whose licences are revoked or varied to alleviate environmental impact, each of which could have a material adverse impact on the business, financial condition or operational performance of the company.

To mitigate these risks the company has a 25-year water resources plan which is regularly consulted on with customers and stakeholders.

Service interruptions due to key site or installation disruption

Unexpected failure or disruption (including criminal acts or major health and safety incident) at a key site or installation (including a reservoir or treatment works) could cause a significant interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that the company operates, prejudicing its reputation and resulting in additional costs including liability to customers or loss of revenue, each of which could have a material adverse impact on the business, financial condition or operational performance of the company.

Catastrophic risk

Catastrophic events such as dam bursts, fires, earthquakes, floods, flu pandemic, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage to or destruction of Yorkshire Water's operational assets. Subject to a possible application for an interim determination of prices under the terms of the company's Instrument of Appointment as a water and sewerage undertaker, any costs resulting from suspension of operations of the company could have a material adverse effect on its ability to meet future financing obligations.

The company also has security and risk escalation processes in place and maintains an element of contingency within its financial planning.


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KPI Glossary of Terms

Financial key performance indicators

Operating profit
Operating profit is disclosed in the Yorkshire Water profit and loss account on page 53.

Net debt
Net debt represents the value of loans and finance leases owed to third parties and other companies within the Group, offset by available cash.

Credit rating
The credit rating indicates the company's ability to comply with its licence requirement to maintain an investment grade credit rating, as defined by Ratings Agencies.

Interest cover
Interest cover is a ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by starting with the company's earnings before interest, tax, depreciation and amortisation (EBITDA) for the year and deducting current cost depreciation as allowed by Ofwat during the 2009 price determination; the infrastructure renewals charges as determined by Ofwat; and the tax paid during the year. This net cashflow before interest payments is then divided by the interest paid during the year.

Adjusted net debt to Regulatory Capital Value (RCV)
The RCV is determined by Ofwat and is the value of the capital base on which a return is allowed for price setting purposes. The values are calculated and published annually by Ofwat. This ratio expresses adjusted net debt as a proportion of the RCV, both of which are published in Yorkshire Water's audited financial statements.

Non financial key performance indicators

Water Supply Interruptions
This reflects the number of hours lost due to water supply interruptions for three hours or longer, per property served and is measured as the hours lost per total properties served.

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

Security of Supply (SoS)
SoS indicates the extent to which a company is able to guarantee provision of its levels of service for restrictions of supply. The indicator measures security of supply for two scenarios – under dry year annual average conditions and peak demand conditions.

The index is based on the difference between water available for use (as defined by the EA) and the target headroom in each water distribution zone. The 'surplus/deficit' is then expressed as a percentage of the sum of dry year distribution input and target headroom.

The population in each zone with a headroom deficit is expressed as a percentage of the company total population. Where the zone is not in deficit, zero should be entered in 'percentage of total population with headroom deficit'. Zonal index is then derived by multiplying the percentage of total population with headroom deficit by the square of the percentage deficit for each zone.

This means that the index is a function of the square of the deficit, so that large deficits affecting small zones are weighted in the overall index. The product for each zone is multiplied by 100, and summed to produce the overall company score.

Sewer flooding (no. of incidents)
This records the number of incidents of internal sewer flooding for properties that have flooded within the last ten years.

Companies must count any incident of internal flooding of a property in the year where a flooding incident, either internal or external, has been reported by the property in the previous ten years. All incidents of repeat flooding must be counted, including those the company assesses to be caused by severe weather.

Every repeat internal incident at a property in the year must be counted and included in the reported figure.

If there has been no incident of flooding, either internal or external, in the last ten years, but multiple incidents are reported at the property in the year, then the first incident is not counted but all other subsequent internal incidents are included in the reported figure.

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

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

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

The measure used is for overall drinking water quality which consists of the average compliance values for 39 different parameters.

Service Incentive Mechanism (SIM)
The company recognises the value of listening to customers in order to deliver improvements that not only meet but surpass expectations. Customer satisfaction is monitored on a regular basis by Ofwat based upon SIM.

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

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

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

Both of these measures are combined to give a combined customer experience measure.

Serviceability
Assessment of the recent historical trend in serviceability to customers, as measured by movements in service and asset performance indicators.

The company makes a judgement about the overall serviceability in each sub-service and updates the serviceability status as one of the following.

- Improving;
- Stable;
- Marginal; or
- Deteriorating.

When making the assessments, Yorkshire Water refer to the serviceability assessment toolkit and the 2009 price review final determination, which states the reference level and control limits for each indicator.

Pollution incidents
The total number of pollution incidents (categories 1 to 3) in a calendar year emanating from a discharge or escape of a contaminant from a sewerage company asset.

The measure calculates the total number of pollution incidents in each category per 10,000km of sewer length for which a sewerage company is responsible in a calendar year as recorded on the EA's NIRS database.

Discharge permit compliance
This measures the performance of sewerage assets to treat and dispose of sewage in line with the discharge permit conditions imposed on sewage treatment works.

It is calculated as the number of discharges on register during the calendar year that did not fail divided by the total number of discharges in the year. This information is available from the EA.

Disposal of sludge
Percentage of sludge disposed of which complies with the Safe Sludge Matrix.

The Safe Sludge Matrix gives guidance on best practice on the minimum levels of treatment sewage sludge should undergo before it is applied to different types of crop.

Greenhouse gas emissions (GHG)
Measurement of the annual operational GHG emissions of the regulated business. Companies report their annual operational net GHG emissions as determined by Defra's 'Guidance on how to measure and report your greenhouse gas emissions' (September 2009).








Corporate social responsibility

For the year ended 31 March 2013

In 2012/13, Yorkshire Water's parent company, Kelda Holdings Limited (Kelda), attained the gold standard in Business in the Community's annual Corporate Responsibility Index.

The index is the UK's leading and most in-depth voluntary benchmarking of corporate responsibility. It has been run by Business in the Community for more than a decade to help companies accurately measure and manage all aspects of their social and environmental performance, shape how they integrate and improve corporate responsibility throughout their business operations and benchmark themselves against competitors.

In achieving the gold standard, Kelda was able to demonstrate openness and transparency through effective public reporting of its material environmental and social issues, programmes and performance.

Stephen Howard, the Chief Executive of Business in the Community, said: "I congratulate the company for achieving gold because it signifies a key step on the journey, a willingness to rise to the challenge and that they are part of a movement of responsible business in which all companies have their unique part to play."

Kelda's approach to corporate responsibility is founded on the principle that the interests of the environment, customers and society at large are best served through the efficient, effective and proper operation of our business.

This is achieved through a clear strategic focus on providing excellent customer service, strong financial and environmental performance and by effectively managing the relationships the company has with its people, service partners and society. Successful progress in each of these areas provides benefits for all.

Progress in this area is driven and monitored by the Kelda Corporate Responsibility Committee, which meets quarterly.

The committee's key tasks include:

- Delivery of the Group's corporate social responsibility reports;
- The creation of a culture of environmental and corporate responsibility awareness within the Group;
- Liaising with and directing activity of other relevant Group committees;
- Advising on opportunities for partnerships to further the Group's corporate responsibility objective;
- Benchmarking performance of the Group against leading comparators; and
- Monitoring the work of and receiving reports from the Environmental Advisory Panel.

Membership of the committee as follows:

- Richard Flint, chief executive of the company (Chair).
- Kevin Whiteman, chairman of the company.
- Kath Pinnock, non-executive director.
- Martin Havenhand, non-executive director.

Meetings are also attended by Michelle Lewis, Yorkshire Water's Director of Corporate Communication.

During 2012/13, the committee considered a number of corporate responsibility issues, including an assessment of the wider economic impact of the company's activities in the Yorkshire region, sustainability benchmarking, corporate reporting, the effectiveness of the company's stakeholder influencing programme and membership of the Environmental Advisory Panel.

BUSINESS IN THE COMMUNITY

There are four focus areas for our CR activity:

Community

Yorkshire Water provides local communities with much more than just high quality water and sewerage services.

The company has an extensive engagement programme, providing support and help-in-kind to a wide variety of different organisations across the region it serves. These partnerships are of enormous importance to the company in terms of forging stronger links and by making a tangible and positive difference to the quality of people's lives.

The company provide this support in three key areas:

- Education - through educating young people and local communities on the value of what Yorkshire Water does;
- Environment - playing a key role as one of Yorkshire's largest landowners in enhancing the natural and built environment; and
- Empowerment - providing opportunities for colleagues to share skills with the local community through employee-supported volunteering.

Here are some examples of the work that has been undertaken over the past 12 months.

Supporting communities in Hull:

Yorkshire Water provided financial support to 31 community projects in Hull over the past year. The donations, which ranged in value from £500 to £5,000, were to thank local people for their patience as the company tried to resolve long-running odour issues at its Saltend Waste Water Treatment Works.

The awards were decided by an independent committee of local people, including county and parish councillors. Local MPs Graham Stuart (Cons, Beverley and Holderness) and Karl Turner (Lab, Kingston-Upon-Hull East) presented the awards at a special evening of celebration.

Among the many environment initiatives supported was the construction of a wind turbine to meet the energy needs of Paull Village Hall. St Augustine's Church in Hedon received £5,000 towards the church restoration fund and youngsters from the Lifestyle Group received £1,200 which, when added to the £1,000 they had already raised themselves, enabled them to install a life-saving defibrillator in the town centre.

Hands Up:

In November 2012, Yorkshire Water launched a new volunteering initiative 'Hands Up', which enables colleagues to support key communities whilst linking strongly with our corporate vision.

The internal launch, was followed by the planting of a giant 20 metre-long hand, made up of 3,500 blue flowers planted by more than 150 volunteers at the RSPB's Fairburn Ings Nature Reserve near Castleford, on 12 April 2013.

Hands Up involves colleagues working with local communities to make a positive difference to the region's natural environment through projects such as habitat creation, restoration challenges and bio-diversity booster schemes. It is also aimed at inspiring and educating people about the value of water as a local and global resource and showing how everyone can be water-wise and play their part in increasing access in developing countries to this precious resource.

In order to boost the effectiveness of the campaign, Yorkshire Water teamed up with a range of partner organisations including the RSPB, the Yorkshire Wildlife Trust, Sheffield and Rotherham Wildlife Trust, the Aire Rivers Trust, the Canals & River Trust and WaterAid.

Stronger partnership links have been put in place with WaterAid, and during 2012/13 colleagues developed and delivered exciting new projects including Coastalong and the very first WaterAid Pantomime. The company has also worked in collaboration with WaterAid to create a brand new educational programme 'The Water Exchange' which can be delivered across both schools and youth organisations catering for the 8 – 14 age range.

Yorkshire Water has maintained its commitment to educational volunteering, with its Right to Read and School Governor programmes continuing to be popular. In addition, the company has linked with Buttershaw Business & Enterprise College through Business in the Community's Business Class initiative, providing leadership training to senior management, community engagement activities and an apprenticeship scheme which saw one pupil winning a place on Yorkshire Water's Apprentice Scheme.

Coastalong:

During 2012/13 Yorkshire Water and WaterAid joined forces to create a fantastic fund-raising event in Britain's oldest seaside resort, Scarborough.

Coastalong saw walking enthusiasts of all ages come together to enjoy the spectacular scenery on show, with the circular route offering breathtaking views of the East Coast as well as close ups of some of Scarborough's most popular attractions.

As well as taking in the delights of the Yorkshire coast, more importantly all those taking part were raising money to help bring clean, safe water to 134,000 people living in some of the poorest communities in Malawi.

The event proved to be such a success that it is to be repeated in 2013.

Further information about community programmes is available on the Yorkshire Water website at **yorkshirewater.com/about-us/giving-something-back.aspx**

Objectives for 2013/14:

- Championing safe water globally – Yorkshire Water will be reaching out beyond the region and working with WaterAid to deliver greater access to clean and safe water in communities across Ethiopia.
- Yorkshire Water will be working with its new partners to ensure the success of Hands Up, the new employee-volunteering initiative and the company will look to increase volunteering numbers to 15%.

Kelda's approach to corporate responsibility is founded on the principle that the interests of the environment, customers and society at large are best served through the efficient, effective and proper operation of our business

Environment

Yorkshire Water recognise that the long term viability of its water and sewerage business is dependent on sustainable operations. It believes sustainable operations are those that drive efficient resource use and provide a healthy environment, which in turn facilitates social progress and economic growth.

The company therefore strives to act as responsible stewards of the environment and commit to continual improvement.

To balance these challenging needs the company is committed to efficient and effective practices. Yorkshire Water recognises that sustainability is the collective responsibility of governments, businesses, individuals and communities and so work in partnership with all stakeholders to pursue this goal.

Here are some examples of the work and achievements over the past 12 months.

Energy from sewage:

A new and innovative £30m energy scheme has been put into operation at Yorkshire Water's Esholt Waste Water Treatment Works between Bradford and Leeds.

The plant uses the pioneering BioThelys sludge treatment process to create energy from human waste and trade effluent – and the waste from that process is recyclable too as it is a good quality peat substitute that can be used in land reclamation projects – so no waste at all.

The thermal hydrolysis plant is the latest project to be progressed by the company as it looks for innovative ways to reduce its energy consumption and carbon footprint.

Another renewable technology already in use at Esholt is the UK's first sewage screw hydrogenerator, which uses two, 10-metre Archimedes screws to generate electricity from flows passing through the inlet.

Protecting water quality:

A new project has been launched in Kirklees to improve the quality of drinking water by restoring rare, natural peatlands.

Yorkshire Water is working with the National Trust and Natural England to stabilise and increase water levels in land above Wessenden, Blakeley and Butterley reservoirs near Marsden.

This process is known as re-wetting and ensures that sediment is not washed into the reservoirs which are used for public water supplies.

The project is part of a £9m, county-wide programme of work to restore peatlands to their former glory.

The scheme will see the restoration of 976 hectares of land on Wessenden Moor and will include grip and gulley blocking, the reprofiling of some areas and encouraging extra vegetation to grow.

Yorkshire's 'Amazon Rainforests':

A ground-breaking project to restore Yorkshire's ancient woodlands is underway at three new locations.

Woodland near Sheffield, Holmfirth and Ripon is being taken back to its native roots by Yorkshire Water, which is removing foreign tree species planted in the 19th and 20th centuries. These will then be replaced with native British trees such as oak, hazel, rowan, alder and holly.

Native woodlands are much more valuable to British wildlife because insect and larvae at the bottom of the food chain need native laves to eat and live in. Once these creatures are established, those further up the food chain are attracted to the area to feed on them.

The new trees and the areas they are planted in will also help protect raw water quality by better stabilising the soil, stopping it from being washed into rivers and streams.

The £1m project will restore almost 80 hectares of ancient woodland.

Objectives for 2013/14:

- Restoring natural uplands, stabilising water quality and supporting animal and plant life – planning and agreeing the company's approach.
- Enhancing urban and rural landscapes which protect the water environment - focusing on key river catchments and putting plans in place to reduce pollution.
- Improving Yorkshire's coasts – creating excellent bathing waters to meet the Revised Bathing Water Directive.

Marketplace – supply chain

Yorkshire Water takes great pride in its customer service, aiming to provide an outstanding quality of service, value for money and consider the customer's point of view at all times.

Turning on the tap and flushing the toilet is second nature to customers. The company is trusted to provide clean drinking water and to take away waste but it cannot do this without the support of local communities.

Yorkshire Water therefore works hard to understand and earn the support of its customers. Listening and responding to their needs helps the company to shape investment plans to deliver benefits to communities at a price they are willing and able to pay. To this end, Yorkshire Water do business in an open and honest way, seeking to build trust with customers.

Here are some examples of the work and achievements during 2012/13.

Taking Responsibility for Business Awards:

In 2012/13 Yorkshire Water's Business Services Team hosted the inaugural 'Taking Responsibility for Business Awards'.

The awards were aimed at recognising business customers whose activities helped support the delivery of the company's own strategic business objectives. In total more than 100 Yorkshire businesses attended the event which provided Yorkshire Water with the perfect platform on which to engage with customers on key business issues.

Britvic Soft Drinks won the Water Efficient Regions Award for an engineering solution that enabled water from one process to be recycled and used again in a later stage of production, creating cost-savings of more than £40,000 a year.

Customer satisfaction:
Customers in Yorkshire are among the most satisfied in the UK when it comes to the water and sewerage services they receive, according to research commissioned last year by the national Consumer Council for Water.

The results showed that 81% said they were satisfied they received value for money, against a national average of 71%.

Customers also praised the company for the quality of water in the region, with its colour, taste, appearance and smell averaging some of the highest satisfaction levels.

In March 2013 the company came top of the utilities sector for customer service in the Institute of Customer Service's twice-yearly customer satisfaction index (UKCSI). The UKCSI asks customers to rate organisations on key attributes of customer service including professionalism, quality, efficiency, ease of doing business, problem-solving, timeliness and the way complaints are handled.

Protecting vulnerable customers:
During 2012/13 the company continued to run a range of initiatives aimed at helping customers struggling to make ends meet in these days of continuing economic austerity.

Yorkshire Water's Resolve scheme offers customers an opportunity to clear their debt by maintaining a payment arrangement which will result in Yorkshire Water making a corresponding write-off of the remaining arrears. To qualify customers must have arrears to of at least £500 and have a low income.

The Group also continue to provide financial support to the Yorkshire Water Community Trust which was set up primarily to help those individuals and families in need and who were unable to pay their water charges.

The Trust was launched in August 1995 and is totally independent of Yorkshire Water.

Further information about our customer service promise is available at **yorkshirewater.com/your-water-services/customer-services/our-service-promises.aspx**

Objectives for 2013/14:

- Provide great customer service – having a clear plan for becoming a leader in SIM.
- Become a recognised leader of what the company does – be clear to customers and stakeholders about what the company stands for and why it matters.
- Work in partnership – build greater understanding of customers and stakeholders and build common ground together.

Workplace – employees and partners

Yorkshire Water strives to create a positive working environment for all its people and service partners.

This means:

- The company ensures that the working environment protects the health, safety and wellbeing of all colleagues;
- The competitive reward and benefits package attracts and retains the best people;
- People are valued for their contribution and understand how they can make a difference;
- The company values and respects each individual and has an inclusive approach;
- All colleagues maximise their potential through skills development; and
- The company communicates and engages with people and unions openly.

Here are some of the activities and achievements that have been undertaken in the past 12 months.

Exemplary health and safety performance:
Yorkshire Water's Product Logistics and Recycling Team are leading the way in terms of health and safety.

The team has recently gone 365 days without a reportable accident, a fantastic achievement considering they work round the clock transporting sludge around the region to be recycled into a compost-like material.

Achieving a whole year without a serious accident has taken focus and dedication from the full team, which has a strong safety culture built on learning from previous incidents.

The team is aware of the risks that are present in their working environments and hold regular workshops with contract partners to share examples of best practice.

In addition, Yorkshire Water's Operational Recycling Co-ordinators spend time on site coaching contract partners to help them achieve the highest levels of safety.

Developing new skills:
In October 2012, Yorkshire Water recruited 16 new apprentices to work in various departments across the company.

The company received 600 applications for the posts – the most ever received since the scheme was launched back in 2010.

As part of the company's continuing drive to ensure the skills base is maintained and fresh talent is being developed, there are now 30 apprentices in the business.

Yorkshire Water was also recently named the top graduate employer amongst UK water companies.

The Guardian newspaper named the company in its Top 10 Graduate Employers for Energy and Utilities following its biggest ever survey of UK graduates.

Over the past year the company has seen a strong demand for graduate roles, with a 62% increase in the number of applications compared to the previous year.

Objectives for 2013/14:

- Maintain a positive focus on health and safety.
- Make sure the company's policies and processes encourage colleagues to do the right things and bring fairness and transparency.
- Introduce a new workplace pension for all colleagues not in an existing Kelda Group pension scheme.




COAST TO
BOAST







Directors' report

For the year ended 31 March 2013

The directors present their report and the audited financial statements of the company for the year ended 31 March 2013.

Financial results for the year
Profit for the financial year was £248.5m (2012: £77.7m).

Business review
A review of the development and performance of the business of the company, including strategy, business model, 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 6 to 20.

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 company. 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 company are the supply of clean water and the treatment and disposal of waste water in Yorkshire, for which the company is the water and sewerage undertaker. The majority of the company's operations are regulated by Ofwat.

Directors
The directors who served during the year and up to the date of signing these financial statements, including any changes, are shown below. The working of the board is covered in more detail in the Corporate Governance report on pages 38 to 43.

Richard Flint	chief executive
Liz Barber	finance & regulation director
Graham Dixon	(resigned 3 March 2013)
Alan Harrison	(resigned 4 April 2012)
Charlie Haysom	
Michelle Lewis	(appointed 29 May 2012)
Nevil Muncaster	(appointed 29 May 2013)
Helen Phillips	
Pamela Rogerson	

Non executive Directors

Kevin Whiteman	chairman
Martin Havenhand	
Roger Hyde	senior independent non executive
Kathryn Pinnock	

As permitted by the articles of association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company has directors' and officers' liability insurance in place.

Biographies

Richard Flint

Chief executive of the company with effect from 1 April 2010. Richard was appointed as chief operating officer in September 2008. Richard was director of the water business unit from 2003. Previously, he held a number of senior operational positions in the company. He was appointed as group chief executive to the board of the parent company Kelda Holdings Limited in March 2010.

Elizabeth (Liz) Barber

Appointed as director of finance and regulation on 24 November 2010.
Liz joined the company from Ernst & Young where she held a number of senior roles, including leading the firm's national water team and the assurance practice across the North of England. She had been with Ernst & Young since 1987 and in that time worked with a number of water companies and the regulators in England, Wales and Scotland. She was appointed as group finance and regulation director to the board of Kelda Holdings Limited in November 2010.

Graham Dixon

Former director of the production business unit.
Graham was appointed as director of the environmental business unit in 2001 he became a director of the new production business unit on 1 April 2010. He was appointed a director of Kelda Water Services Limited in January 2005. Previously, he held a number of senior management positions with Yorkshire Water during the 1990's in both operations and capital delivery. He resigned from the board on 3 March 2013.

Alan Harrison

Alan was director of information technology with responsibility for IT services within YWS and the rest of the Group. He was also managing director of Loop.
Prior to joining Yorkshire Water, Alan worked for 20 years in the nuclear industry with the United Kingdom Atomic Energy Authority and British Nuclear Fuels plc. He resigned from the board on 4 April 2012.

Charlie Haysom

Appointed as director of the asset delivery unit on 27 April 2011 and subsequently as director of the production business unit in March 2013 upon the retirement of Graham Dixon from the company.
Charlie's career with the company spans 32 years, during which time he has held a number of senior operational roles in water distribution, asset management, water production, regional operations control and capital programme delivery.

Michelle Lewis

Appointed as director of the communications business unit on 29 May 2012.
Michelle joined the company in 2006 as public affairs manager and became head of communications in November 2011. She had previously spent four years at ASDA where she had lobbied on a number of issues affecting the supermarket industry and before that worked as Government Affairs manager for the Yorkshire Electricity Group.

Nevil Muncaster

Appointed as director of the asset delivery business unit on 29 May 2013 having joined the company on 13 May 2013.
Nevil was previously with Veolia Water where he held the roles of managing director of Veolia Water South East (formerly known as Folkestone and Dover Water) and managing director for Veolia Water East (formerly Tendring Hundred Water). He worked for Veolia Water for 19 years and is a civil engineer by training.

Helen Phillips

Appointed as director of the customer service and networks business unit on 28 March 2012.
Helen joined the company in March 2012 and was previously chief executive officer of the Government's advisory body on the natural environment, Natural England, having served in that role for five years. Helen held previous operational, regulatory and advisory roles at the Environment Agency (EA) and the National Rivers Authority.

Pamela Rogerson

Appointed as director of HR and health and safety on 27 April 2011.
Pamela joined the company in 2002 and was appointed head of HR in June 2010 having previously developed her career in the electricity supply and retail industries.

Kevin Whiteman

Joined YWS in 1997 as business director for waste water, and became managing director in April 2000.
Kevin is Chairman of Kelda Holdings Limited (formally chief executive) and Kelda Eurobond Co Limited, and formerly chief executive and accounting officer of the National Rivers Authority and regional director of the EA. He previously held senior positions with British Coal. He was appointed to the board of NG Bailey Limited as a non-executive director on 1 April 2013 and will assume the role of non-executive chairman of that company on 25 July 2013.

Martin Havenhand

Appointed to the board as an independent non-executive director in October 2007.
From 1999 to 2006, Martin was chief executive of Yorkshire Forward, the Government's regional development agency and was previously chief executive of Bassetlaw District Council, North Nottinghamshire having held a range of director appointments in different local authorities. He has held non-executive roles with Gladedale Holdings, National Skills Academy and Sheffield City Region. He is currently chair of CETMAN (previously the National Metals Technology Centre) and deputy chair of TAP (The Adsetts Partnership).

Roger Hyde

Appointed to the board as an independent non-executive director in June 2005.
Roger held various local government finance roles before becoming chief accountant of Anglian Water Authority in 1986. Following appointment to the National Rivers Authority in 1988, successive promotions led to his appointment as director of the North East Region of the EA in 1995. He is currently managing director of ENVIRO-SOLVE Limited, a management consultancy service and is also a non-executive director of Yorkshire Chemical Focus Limited, Water Industry Forum Limited and Intelligent Formulation Limited.

Kath Pinnock

Appointed to the board as an independent non-executive director in March 2008.
Kath has been a councillor with Kirklees Council since 1987 and held the post of leader of the council from 2000 to 2006. She is a member of the national Local Government Policy Forum and was both a board member of Yorkshire Forward from 2002 to 2012 and a member of the executive of Yorkshire & Humber Regional Assembly from 2000 to 2006. Kath is a regional peer for the Local Government Improvement and Development Agency which involves working with councils and councillors to improve the quality of local government. She also has a non-executive role with CO2 Sense, which is a community interest company charged with helping businesses reduce their carbon footprint.

Dividends

The total dividends of £256.6m (2012: £63.4m) were paid to Yorkshire Water's immediate parent company, Yorkshire Water Services Holdings Limited, in the year. Total distributions from Yorkshire Water were made up as follows:

	2013 £m	2012 £m
Dividends paid	256.6	63.4
Intercompany loan to parent company	–	128.8
Total distributions	256.6	192.2
Dividends paid to Kelda Holdco Limited to allow Kelda Holdco Limited to pay interest to Yorkshire Water	(78.1)	(63.4)
Net distributions	178.5	128.8

No final dividend for the year is proposed.

The company's dividend policy is to:

- Deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits;
- To pay dividends in respect of the non-appointed business reflecting the profitability of those activities; and
- Where it is foreseeable that the company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy, the company can also pay special dividends as part of any capital reorganisation which the board concludes to be in the best interests of the company and complies with its obligations under its licence.

The directors consider that the dividends paid in the year are in accordance with these principles.

Reserves

The profit for the year of £248.5m has been transferred to the profit and loss reserve, bringing the balance held in this reserve to £834.9m (after dividends in the year of £256.6m, £0.3m other movements).

Research and development

The company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2012/13, £4.1m was committed to research and development including £3.4m capital expenditure.

Fixed assets

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

Movements in fixed assets include transfers to KeyLand Developments Limited, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by Ofwat. With effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by Ofwat.

Revaluation of assets

Certain classes of the company's tangible fixed assets were revalued at 31 March 2012 as covered in the note 7 to the statutory financial statements.

The directors confirm that they know of no material change to the value of Yorkshire Water's tangible fixed assets to be disclosed within the financial statements of Yorkshire Water at 31 March 2013.

These assets will continue to be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £385.7m (2012: £404.3m).

Payment of suppliers

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

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 25 days (2012: 19 days).

Instrument of Appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory financial statements.

Employees and employment policies

The company strives to create a positive working environment for all colleagues and in developing open and trusted relationships. It values involvement and engagement at all levels, recognising that everyone in the business is valued for their contribution and is a potential source of innovation and change. The Company Values set the framework for how the company expects colleagues and partners to behave with each other, with our customers and with external stakeholders.

The company 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. Innovative online channels are also used to provide quick and easy methods of communication.

Regular employee satisfaction surveys are undertaken throughout the company, using a quarterly online survey. People action plans focus on a range of issues including how colleagues are aligned to company goals; how colleagues are engaged to deliver great performance; and how capability is built.

To promote successful employee relations, the company demonstrates its commitment to effective and two way communication through its information and consultation framework. In addition to collective bargaining arrangements with its recognised trade unions – UNISON, GMB and Unite, communication and consultative team meetings take place across the company, comprising elected (union and non-union) employees who meet regularly with directors and senior managers. At these meetings the company shares performance information, discusses health and safety issues as well as providing an opportunity for 2 way face to face dialogue.

The company welcomes diversity of talent, principally through its diversity and inclusion 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. Typically a male dominated industry, Yorkshire Water now has gender balance in the Executive Team with a strong focus on gender diversity at all levels.

The company continually strives to attract, select and retain the best talent. Looking to the future, there is a strong commitment and focus on proactively resourcing the business by understanding future roles and skills requirements and ensuring that plans are in place to meet our needs with particular emphasis on developing our technical skills pipeline of talent. The company's approach to talent management is inclusive and creates a framework to discuss aspirations, skills and development needs at all levels regardless of career aspirations.

The company places great emphasis on enhancing business performance by maximising individual, team and organisational potential through skills development. The company is focused on developing safety, technical, behavioural and leadership capability. Leadership skills are recognised and developed using the "Responsible Leader" framework which focuses on Knowing the world of water; Operational Excellence; and Personal Leadership. The company provides a wide range of development opportunities, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential.

Yorkshire Water's award winning Graduate recruitment programme has a strong reputation and this has been recognised at a regional and national level. In 2011 and 2012 Yorkshire Water has been named as the graduate employer of choice in the private sector in Yorkshire. The Guardian newspaper named the company in its Top 10 Graduate Employers for Energy and Utilities following its biggest ever survey of UK graduates.

Yorkshire Water's Apprentice training scheme is also well established. In October 2012, Yorkshire Water recruited 16 new apprentices to work in various departments across the company. The company received 600 applications for the posts – the most ever received since the scheme was launched back in 2010.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference whilst feeling valued for their contribution. 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.

Health and safety

Yorkshire Water is committed to achieving high health, safety and wellbeing standards throughout its business. The management of health, safety and wellbeing issues operates in the context of the health and safety policy adopted by the board and the system of internal control.

The company 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 company provides occupational health, safety and wellbeing support and rehabilitation services for employees.

Specific lead and lag health and safety goals are also set within the business. These goals include a combination of reductions of accidents, near miss reporting, hazard identification, behavioural safety conversations, training delivery, leadership safety site visits, internal safety audits and health and wellbeing programmes.

The company believes that good health and safety is good business and we are committed to providing safe working environments, where the health, safety and wellbeing of employees is both protected and actively promoted. The health, safety and wellbeing business plan sets out the route to continually achieve this through a strong occupational health and safety management system, active engagement and communication with employees and demonstrated leadership at all levels.

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

Yorkshire Water's aspiration is to achieve 'zero harm' and the measures taken by the company are intended to place emphasis on the proactive identification and control of our health, safety and wellbeing risks.

Political and charitable donations

The company does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the company and stakeholders. This includes promoting the company's activities at the main political parties annual conferences.

As part of its stakeholder engagement programme the Group incurred expenditure of £24,000 in such activities.

Charitable donations by the company in the year amounted to £66,000. The company prefers to provide its charitable giving in effect by payment in kind through volunteering by its employees. Details of the company's volunteering initiatives are given in the Corporate Social Responsibility section on page 25 to 29. Cash donations during the year included:

- £50,000 to 31 community projects in Hull to thank local residents and businesses for their patience whilst odour issues at the Hull waste water treatment works were resolved;
- £6,000 to support the work of WaterAid, a charity whose mission is to transform lives by improving access to safe water, improved hygiene and sanitation in the world's poorest communities; and
- £5,000 was given to Waterwheelers as part of a "cashmatching" scheme. Waterwheelers is a charity run by Yorkshire Water employees which organises fund-raising events in support of worthy local, regional and national causes. Good causes include Children in Need, Comic Relief, Children's Heart Foundation, Marie Curie Cancer Care, Genes for Jeans and Sports Relief. As an incentive to colleagues, the company match fund-raising efforts, pound for pound, up to a value of £5,000 per annum.

Directors' statement as to disclosure of information to auditors

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the company's 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 company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and the board has passed a resolution confirming their reappointment.

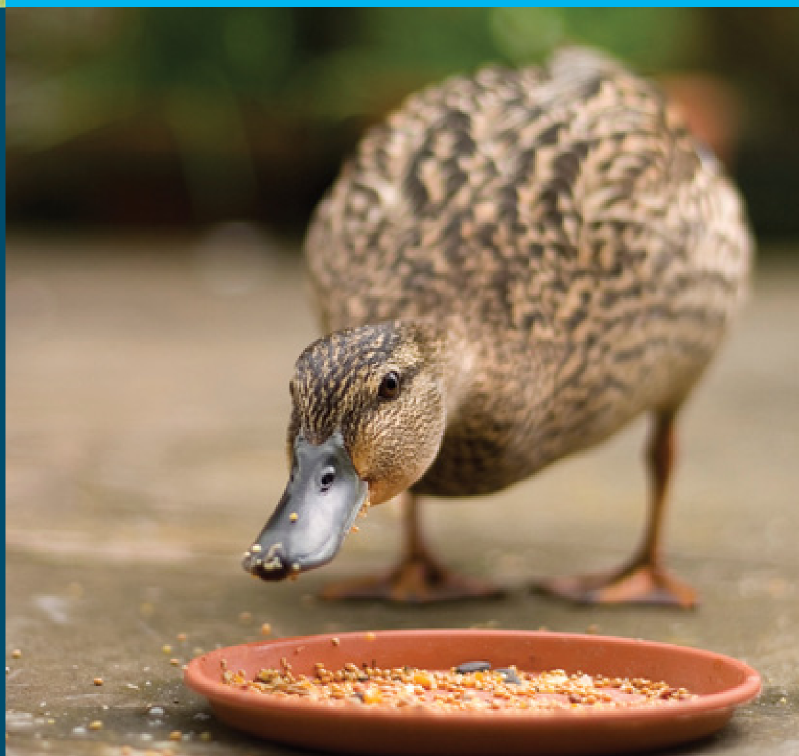
On behalf of the board

Kevin Whiteman
Chairman
3 July 2013

Registered office:
Western House, Halifax Road, Bradford BD6 2SZ
Registered in England no. 2366682

Managing 700 water and sewage treatment works

Delivering 1.24 billion litres of drinking water a day



Corporate Governance Report

For the year ended 31 March 2013

Corporate Governance

Throughout the year the board remained accountable to the company's shareholders for maintaining standards of corporate governance. This corporate governance report describes how the board and its committees discharge their duties. Under the terms of its Instrument of Appointment the company is required to have particular regard to the UK Corporate Governance Code as published by the Financial Reporting Council ("the Code"). The Code applies to all companies with a premium listing of equity shares on the London Stock Exchange. The Code expressly states that it is not a rigid set of rules and that it consists of principles and provisions. The companies whose shares are listed are required to apply the main principles set out in the Code and to report to shareholders on how they have done so. However, the Code acknowledges that departures from provisions of the Code may be justified in particular circumstances and that the reasons for any such departure should be explained to shareholders. As the company is a wholly-owned subsidiary in a privately-owned group the board considers that a number of the provisions of the Code are not directly applicable.

The following section is an explanation of how the company applies the Code and where appropriate an explanation of any departures from the Code provisions is provided. The company has complied with the provisions of the code except as disclosed below.

The board of directors

The board is satisfied that it acts independently and that both it and the board's committees have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

The board held ten scheduled meetings during the year. Additional meetings were held where it was considered appropriate or where business needs required. In addition, meetings of committees of the board were held when required.

Board and committee attendance

There are four standing committees of the board which are as follows;

1. The Executive Team (Kelda Management Team (KMT)).
2. Board Capital Investment Committee (BCIC).
3. Legal Committee.
4. Regulation Committee.

Each of these committees has written terms of reference which are available on request from the company secretary or on the corporate governance section of the company's website at www.keldagroup.com. Other committees are formed as and when required to deal with specific issues, for example funding committees are established to consider the raising of finance on behalf of the company. Appropriate terms of reference are established by the board at the appropriate time.

The company does not have its own separate remuneration or audit committees but these are operated at a Group level. A description of the workings of these committees as they apply to the company are set out later in this report. The company does not have its own nominations committee as the board has reserved to it the power to appoint and remove directors from the board of the company (and any of its subsidiaries). The process for directors' appointments is formal, rigorous and transparent in accordance with the relevant principle of the Code.

The table below shows the number of meetings of the board, its standing committees, Group audit, Group remuneration and CR committees attended by each director as a member of that board or committee, out of possible attendances.

	Board	Exec Team	BCIC	Legal	Group Audit	Group Remuneration	CR	Regulation
Kevin Whiteman	11/12	–	–	–	–	5/5	3/4	–
Richard Flint	11/12	27/37	–	1/1	–	–	4/4	4/5
Liz Barber	12/12	30/37	21/40	–	–	–	–	4/5
Graham Dixon	11/11	27/34	4/36	1/1	–	–	–	3/3
Alan Harrison	0/0	1/1	–	–	–	–	–	0/0
Charlie Haysom	10/12	30/37	26/40	–	–	–	–	4/5
Michelle Lewis	11/11	30/37	–	–	–	–	–	4/5
Helen Phillips	12/12	32/37	1/40	–	–	–	–	4/5
Pamela Rogerson	12/12	35/37	–	–	–	–	–	5/5
Martin Havenhand	10/12	–	–	–	–	–	4/4	–
Roger Hyde	12/12	–	–	–	3/3	–	–	–
Kathryn Pinnock	12/12	–	–	–	–	–	4/4	–

The board has a schedule of matters reserved for its decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the company. In addition, meetings of the non executive directors are held when required.

The board determines the company's strategic objectives and key policies, and approves the business plans for the company, interim and final financial statements, recommendations of dividends, significant investment and major new business proposals, as well as significant organisational matters and corporate governance arrangements. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

The board reviews and approves the company's annual financial statements.

During the year the board received detailed monthly reports prepared by management on the company's operations. In addition to those monthly reports the following matters of significance were considered by the board; the proposals by Ofwat to modify the company's Instrument of Appointment; the company's adaptation policy in respect of climate change; the review of the company's pension arrangements; the company's vision and strategy; changes to the legislative, political and regulatory landscape; the impact of retail competition; and preparations for the next price review.

The roles of the chairman and the chief executive are formally set out and agreed by the board of the ultimate parent company. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

All new directors, where applicable, receive an induction and training on joining the board, including information about the company and their responsibilities, meetings with key managers, and visits to the company's operations. Briefings are provided to directors on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and subsequent to, their appointment to meet their particular requirements. There is an agreed procedure for directors to take independent professional advice at the company's expense in furtherance of their duties in relation to board or committee matters. Directors have access to the company secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The company has directors' and officers' liability insurance in place.

In conjunction with the chairman the chief executive reviews and agrees with the executive directors their training and development needs. The chairman keeps under review and agrees the training and development needs of the non-executive directors which is organised by the company secretary.

At the end of the year, the Yorkshire Water board comprised a non executive chairman, five executive directors and three further non executive directors. Nevil Muncaster joined the company on 13 May 2013 and was appointed to the board on 29 May 2013 as director of the asset delivery unit.

Korn/Ferry International (KFI) recruitment agency, who have particular asset management expertise, was engaged by the company to carry out a search for a new director of the asset delivery unit to take over the role from Charlie Haysom. A long list of potential candidates was created by KFI who carried out an assessment of a competency profile prepared by the company in order to produce a short list of four candidates who were interviewed by members of the executive of the company for recommendation of the preferred candidate to the board.

The company does not comply with the Code's requirement that at least half the board, excluding the chairman, comprises non-executive directors determined by the board to be independent. In accordance with Condition P of its Instrument of Appointment the board contains three independent non-executive directors who are "persons of standing with relevant experience" and who "collectively have connections with a knowledge within which the company holds its appointment" and "an understanding of the interests of the customers of [the company] and how these can be respected and protected". The company considers that given the nature of the company's business it is appropriate that directors with key executive responsibilities are also board members and attend board meetings in that capacity so that they can bring the appropriate skills and knowledge of the company to those meetings in order to enable the board to discharge its duties and responsibilities effectively.

During the financial year 2013/14 the board proposes to appoint to the board an additional non-executive director with recent and relevant financial expertise.

Kevin Whiteman was previously chief executive of the company. Following the retirement of John Napier as chairman of the board in September 2008, the shareholders of the company considered an appropriate replacement in accordance with the Code. The shareholders were unanimously of the view that Kevin Whiteman was the appropriate person to lead the board given his knowledge and expertise of the water industry and to act as the link between the company and the shareholders within the private ownership structure of the Kelda Group.

Martin Havenhand, Roger Hyde and Kathryn Pinnock are considered by the board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgements.

Roger Hyde is the senior independent non executive director. In practice the independent non-executive directors meet collectively with the shareholders but Roger has been the point of contact and representative of the independent non-executive director in discussions with Ofwat.

The roles of chairman and chief executive are separate and held by Kevin Whiteman and Richard Flint respectively.

Appraisal of the Chairman's performance is carried out by the company's shareholders.

Kelda Management Team

The board has constituted an executive management team called the Kelda Management Team (KMT). The executive directors of the company and the company secretary constitute the KMT. Its duties are to monitor and supervise the management of the company, reporting to the board. The KMT is empowered under the company's articles of association between board meetings and generally to give effect to the strategy determined by the board and to supervise the executive and operational management of the company. The proceedings of the KMT are reported to the board.

Board Capital Investment Committee

The board has constituted a Board Capital Investment Committee (BCIC). The prime duty of BCIC is to provide a strategic cross business view of capital investment on behalf of the company in order to deliver service and compliance requirements at maximum capital and operating efficiency.

The director of finance and regulation, the director of customer service and networks and the director of production are all members of BCIC together with other senior managers with responsibilities for capital investment on behalf of the company. The director of finance and regulation is the chair of BCIC and the quorum is three members, one of whom is an executive director of the company.

The proceedings of BCIC are reported to the board.

Legal Committee

The board has constituted a Legal Committee. The duties of the Legal Committee are to deal with all matters requiring a decision on (i) whether to appeal any judicial decision, and (ii) whether to enter a plea of guilty or not guilty in respect of any prosecution brought by the EA or DWI.

The members of the Legal Committee are drawn from the chief executive, head of legal services together with the executive directors whose role is appropriate to the matter under consideration unless there is a conflict with their position. The committee meets on an ad hoc basis by notice. The quorum of the committee is two members, one of whom is an executive director of the company or their alternative.

The proceedings of the Legal Committee are reported to the board.

Regulation Committee

The board has constituted a Regulation Committee. The duties of the Regulation Committee are to oversee the overall management and direction of arrangements for the periodic price review process.

The members of the Regulation Committee are the executive directors of the company together with senior managers with a responsibility for the periodic review process. The Chair of the committee is the chief executive.

The proceedings of the Regulation Committee are reported to the board.

Group Audit Committee

Roger Hyde, who is an independent non executive director, sits on the Group's audit committee and four Group directors comprise the balance of the committee. The external auditors, the Group head of internal audit and the company secretary attend all meetings. Liz Barber, director of finance and regulation, attends by invitation. The committee also meets with the external auditors without the presence of executive management when it considers it necessary or appropriate to do so and in any event annually. The committee chairman reports on the activities of the committee to the Group board meeting immediately following each committee meeting and Roger Hyde reports to the company's board meeting.

The audit committee's key tasks in respect of the Group during the year included:

- Receiving reports from the Group's auditors on the Group companies' accounts;
- Reviewing and monitoring of the integrity of the annual return to Ofwat;
- Reviewing the Group's system of internal control, including financial, operational, compliance and risk management;
- Overseeing the Group's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence and objectivity of the external auditors;
- Reviewing internal audit reports on the Group's operations; and
- Monitoring and reviewing the effectiveness of the internal audit function.

In undertaking these tasks the committee receives and reviews work carried out by the internal and external auditors and their findings. Both the internal and external auditors work to an annual plan developed in consultation with the committee. In addition, the committee reviews specific business areas and processes from time to time.

The regular business of the audit committee includes consideration of reports on financial statements, audit planning, the activities of internal audit and its key findings, and the consideration of the operation of internal control processes.

The Group has a policy for disclosure of malpractice, and the audit committee reviews the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

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

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

The key features of the policy are:

- Clear accountability of the external auditor to the audit committee and the chairman of the board of Kelda Holdings Limited, the company's ultimate parent company;
- The audit committee considers annually its recommendation to re-appoint the external auditor;
- The external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- The external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity;
- The external auditor is required to confirm in writing to the Audit Committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements;
- The external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the Group and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- Rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; and
- Specific restrictions and procedures in relation to the allocation of non audit work to the external auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of the work, or the approval of the audit committee. At each of its meetings the audit committee receives a report of the fees paid to the auditor in all capacities.

The split between audit and non audit fees and a description of the non audit fees for the year to 31 March 2013 appears in note 2 to the statutory financial statements. The amount and nature of non audit fees are considered by the committee not to affect the independence or objectivity of the external auditor.

In view of the fact that the majority of issues dealt with by the audit committee relate to the company during the financial year 2013/14 the board proposes to establish a separate Yorkshire Water audit committee to consider matters as described above insofar as they apply specifically to the affairs of the company. This new committee will be chaired by a non-executive director with recent and relevant financial expertise.

Internal control

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group and this has been in place for the year under review and up to the date of approval of the annual report and financial statements. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Group has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities.

The Group's risk management process aims to be comprehensive, systematic and continuous, and based on constant monitoring of business risk. The key features of the process include the following:

- The main risks facing the company are identified and recorded in a strategic risk register together with the control mechanisms applicable to each risk. These are collated from risk registers maintained by individual business units and are updated and reviewed by KMT;
- There is clear allocation of management responsibility for risk identification, recording, analysis and control;
- The audit committee reviews the effectiveness of the systems which are in place and reports to the Group holding company board and Roger Hyde reports to the company's board meetings;
- Both KMT and a sub-committee of KMT met during the year to review the Group's strategic risk position in detail;

- Business units are required to report annually on principal business risks and the operation of control mechanisms; and
- The internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process.

The audit committee may at its discretion review specific risks and the systems, controls and resources in place to manage the risks.

The audit committee reviews and monitors the effectiveness of the risk management process on behalf of the Group.

In addition to this process, the Group is subject to: a quarterly comprehensive review by KMT of risks and risk management; 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.

The review of the effectiveness of the system of internal control appears in the financial statements of Kelda Holdings Limited as the review covers the whole of the Group's activities, copies of which are available on request from the company secretary.

Group Remuneration committee

Details of the membership and role of the remuneration committee are included in the Group's remuneration report on page 44.

Corporate Responsibility Committee

Martin Havenhand and Kathryn Pinnock, who are independent non executive directors, sit on the Group's Corporate Responsibility Committee. Kevin Whiteman, the non-executive chairman, also sits on this committee which is chaired by Richard Flint. The director of communication and the company secretary attend all meetings. Other directors and Group employees attend by invitation. During 2012/13 this committee met on four occasions and is scheduled to meet on a quarterly basis.

The corporate responsibility committee's key tasks include:

- Delivery of the Group's corporate social responsibility reports;
- The creation of a culture of environmental and corporate responsibility awareness within the Group;
- Liaising with and directing activity of other relevant Group committees;
- Advising on opportunities for partnerships to further the Group's corporate responsibility objective;
- Benchmarking performance of the Group against leading comparators; and
- Monitoring the work of and receiving reports from the Environmental Advisory Panel.

Board evaluation

During the financial year 2011/12 the boards of the company and Kelda Holdings Limited instructed Egon Zehnder International (EZI) to undertake an evaluation of the performance of both boards, their inter-relationship and the Group committees. EZI's Board Consulting Practice works closely with some of the world's most respected and highest performing boards and is wholly independent from the company or the Group. EZI were engaged by the company in a search for the role now occupied by Helen Phillips although the successful candidate was identified directly by the company. The company has no current ongoing relationship with EZI.

The evaluation exercise took place from October 2011 to March 2012. EZI discussed the content of the evaluation with the chairman and company secretary and the tailored questionnaires prepared specifically for the Group. The content of the evaluation specifically addressed board structures and composition, board dynamics and relationships, board processes, people processes and board strategy.

Interviews were carried out by EZI and individual discussions between directors and the chairman and meetings between the chairman and non-executive directors were held to consider issues arising from the evaluation process and to identify and implement appropriate action. The questionnaires were confidential between the individuals and EZI. EZI analysed the responses and presented their conclusions to the chairman which were circulated and discussed by the boards.

The evaluation concluded that a revised two tier board structure should be implemented with no representation by shareholders on the board of the company. It was considered that this would improve corporate governance and provide greater clarity of decision making within the company. This revised structure was implemented with effect from 1 April 2012 with the shareholder representatives who were previously directors of the company resigning on 31 March 2012 as reported in the annual report and financial statements for 2011/12. Following a year of implementation of the new structure a further formal board effectiveness evaluation is being carried out during 2013/14 by the chairman through self evaluation questionnaires and interviews with the directors.

Interaction with shareholders

The chairman ensures that the views of shareholders are communicated to the board as a whole. The non-executive directors have the opportunity to attend meetings with the shareholders to enable them to develop an understanding of their views.

The company takes a systematic approach to identifying, prioritising and engaging its key stakeholders, who are many and varied. The company's Communications Team co-ordinates stakeholder engagement activity across the business.

On a quarterly basis the Communications Team carries out an analysis of current and forthcoming issues affecting the business, drawing on insight and research gathered by the business and the company's strategic and operational risk registers. The analysis involves looking at several specific areas – the Political, Economic, Social, Technological, Environmental and Internal environments. This analysis is then used to draw up communication, engagement and influencing programmes with key stakeholder groups.

The company uses a wide range of different forums and channels to engage with key stakeholders.

Conflicts of interest

Since 1 October 2008 all directors have been under a statutory duty to avoid any situation which they have, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the company. In accordance with standard practice the company's Articles of Association contain provisions which permit those directors who are not conflicted to authorise conflict situations and procedures have been put in place for the disclosure of any potential conflicts by the directors to the board and if appropriate for the authorisation of such conflicts. The procedures permit any authorisation to be subject to any conditions that the directors who are not conflicted consider to be appropriate. All of the directors are required to notify the company secretary if they believe a conflict situation might arise. The directors do not consider that during the financial year that any actual conflicts of interest have arisen between the roles of the directors as directors of the company and any other roles which they may hold.

Environment

The environmental policy of the company 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 company's website which is regularly updated. This can be viewed at **yorkshirewater.com/our-environment.aspx.**

Community

The company 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 governor appointments, and Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are described in the Business Review on pages 6 to 23. The financial position of the company is described on page 13 and its borrowing facilities are described on page 15. In addition, page 16 includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £367m. (2012: £332m). These funds are sufficient to fund the operating and capital investment activities of the company for the 12 months from the date of signing the accounts. In addition the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. As a consequence the directors' believe that the company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the company 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' Remuneration Report

For the year ended 31 March 2013

During the year ended 31 March 2013 the Group's remuneration committee comprised four shareholder representatives plus Kevin Whiteman. Although not considered independent upon appointment as chairman the shareholders appointed Kevin Whiteman to the committee in September 2010 in place of John Napier (former chairman of the company) to assist the committee in its deliberations and to draw upon his experience and knowledge of the Group and the industry. Richard Flint, chief executive, and Pamela Rogerson, director of HR and human resources, and the company secretary attend all meetings. Liz Barber, director of finance and regulation attends by invitation. Pamela Rogerson acts as adviser to the committee and external advisers attend on an ad hoc basis to advise the committee as necessary. During the year ended 31 March 2013 the remuneration committee was chaired by Holly Koeppel, one of the shareholder representatives.

In the interests of improved governance and transparency, following agreement of the boards of Kelda Holdings Limited and the company, Martin Havenhand, who is an independent non executive director, has also been appointed to the Group's remuneration committee with effect from 1 April 2013.

For guidance in recommending remuneration packages, the remuneration committee uses published surveys carried out by remuneration consultants, as well as internal research, together with other ad hoc projects to support the objective of ensuring competitive and sustainable remuneration. New Bridge Street Consultants advise the company and the remuneration committee on a variety of remuneration related issues. The company does not use New Bridge Street Consultants in any capacity other than as an independent adviser on remuneration matters.

The terms of reference of the remuneration committee are available on request from the company secretary or on the corporate governance section of the Kelda Group's website, at **keldagroup.com/corporate governance.**

The committee makes recommendations to the board of Kelda Holdings Limited in respect of the Group on the framework of executive remuneration, and its cost. It determines the remuneration and conditions of employment of the chairman, executive directors and the next most senior category of executives, including the terms of any compensation in the event of early termination of an executive director's contract. It also operates the company's long term incentive plan. In determining the remuneration of executive directors and other senior executives, the committee also takes into account level of remuneration and pay awards made generally to employees of the group. The design of performance–related remuneration for executive directors and other senior management of the company takes into account the provisions of Schedule A of the Code.

During the year the committee met five times and amongst other things carried out the following activities;

- Reviewed the remuneration packages of KMT;
- Assessed the achievement of targets for the 2012/13 annual incentive plan;
- Assessed the measurement of performance conditions for the long term incentive awards vesting in 2012 and set the targets for awards made in 2012;
- Considered reward packages for the Group;
- Considered succession plans for KMT and other senior managers in the company;
- Considered the fees for non-executive directors of the company; and
- Considered market trends and quoted company senior executive remuneration.

Statement of policy

The company's policy is to establish remuneration packages which enable the company to attract, retain and motivate people with the skills and experience necessary to lead and manage a business of the Group's size and complexity. Remuneration packages should be aligned with the interests of the company's stakeholders, in particular its shareholders and customers.

In recommending remuneration packages, the remuneration committee follows the principle of recognition of the individual's contribution to the business. The company intends that remuneration packages continue to be developed to enable executive directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, compared to relevant market and industry comparators and taking into account individual performance, responsibilities and experience. Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards. Further details of the proportions are included in the sections below and in the directors' emoluments table on page 51. The design of the total remuneration package is intended to achieve a weighting of each component to ensure that above average remuneration is available through performance related elements rather than base salary.

The company treats remuneration strategy and its people resource as key components in delivering its vision to the shareholders of Kelda and to the customers of the Group's businesses. At the same time, the company recognises fully the sensitivities of such matters and the need for due care and attention to be taken when considering such issues.

Executive directors

The current remuneration package for each executive director comprises the elements set out below.

Annual salary and benefits

The base salary is a fixed figure and does not vary in relation to business or individual performance. The annual salary for each executive director is reviewed each year. The review takes into account relevant market comparators and the individual responsibilities and experience of each director. Benefits in kind include a car and health insurance. Base salary is pensionable.

Annual incentive plan

Under the annual incentive plan, each director has the opportunity to earn an annual incentive award based on a percentage of their salary. Awards are entirely performance related as described below.

During the 2012/13 financial year, the chief executive and the director of finance and regulation had the opportunity to earn an annual incentive award of up to 100% of their salary representing their group roles. Each other executive director on the board had the opportunity to earn an annual incentive award of up to 70% of their salary. Any bonus payment is made in June based on performance in the year ending on the preceding 31 March.

Incentive payments at the higher end of the range are payable only for demonstrably superior company and individual performance. Annual incentive payments are not pensionable.

Early in the 2008/09 financial year, the company implemented a new annual incentive plan based on company performance and personal contribution. Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March as follows:

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal / individual objectives set at the start of the financial year.
- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the company's strategic business objectives. The same corporate objectives were shared by all directors. These are set out in the table overleaf with the percentage payable.

Strategic Theme	Measure	% of corporate bonus awarded (out of a maximum available)
Strong financial foundations	1. EBITDA (see page 22 for definition)	18 (20% max)
	2. Capital Programme Allowance	
	3. Capital efficiency	
Trusted company	1. SIM qualitative	5 (6% max)
	2. SIM quantitative	
	3. Media Score	
Water efficient regions	1. Reservoir Stocks	6 (6% max)
	2. Leakage rolling average	
	3. Demand	
Safe water	1. Mean zonal compliance	2 (6% max)
	2. DWI incidents	
	3. RIDDOR incidence rate	
	4. Near Miss incidence rate	
	5. DG5 other causes	
Excellent catchments, rivers and Coasts	1. Category 1 & 2 pollution incidents	6 (6% max)
	2. Category 3 pollution incidents	
	3. No of WWTW's failing numeric consent	
Sustainable resources	1. Renewable energy generation	3 (6% max)
	2. Greenhouse gas emission	

Using these principles the awards for 2012/13 were determined by the Remuneration Committee and taking account of performance against these measures and personal/individual objectives, total awards were made by the Committee in accordance with the table below.

	Max. Bonus %	Bonus for 2012/13 %	Bonus for 2012/13 £
Liz Barber	100	80	211,206
Graham Dixon	70	50	85,538
Richard Flint	100	85	314,500
Charlie Haysom	70	62	79,190
Michelle Lewis	70	55	58,428
Helen Phillips	70	60	107,100
Pamela Rogerson	70	60	72,049

These payments were approved by the Committee on 28 March 2013 and were paid in June 2013.

Richard Flint and Liz Barber were executive directors of Kelda Holdings Limited during 2012/13 and their bonuses are shown in full however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged out of the regulated business.

Long term incentive plan (LTIP)

Under the plan, executive directors may receive, at the discretion of the remuneration committee, a conditional monetary award. The plan provides for a cash award based on a percentage of salary. For the chief executive and the director of finance and regulation this is a value of up to 200% of base salary. For each other executive director on the board this is a value of up to 150% of base salary.

The proportion of the award to be vested after a period of three years will depend upon the company's performance during the three year period against a predetermined set of performance conditions as described below.

The performance conditions as set are considered by the remuneration committee to be the most appropriate measure by which the interests of the executives can be aligned and balanced with those of the shareholders, the company and its customers.

No award will vest unless the remuneration committee is satisfied that Kelda's underlying financial performance has been satisfactory over the performance period, taking into account the company's circumstances, including the regulatory regime in place over the period, and the committee can scale back vesting to any extent considered appropriate in the light of the company's financial performance.

The rules of the plan provide for early vesting of awards in cessation of employment in certain circumstances, such as death, disability, redundancy, retirement and business transfer. Early vesting is subject to the same performance conditions as apply to vesting at the end of a three year performance period. On early vesting, the number of shares vested is reduced pro-rata to the number of days of the performance period in which the director was in office.

No benefits under the plan are pensionable.

The first conditional award under a revised Kelda Group LTIP, which included a link to the company's performance against Ofwat comparative efficiency measures, was made on 27 September 2007. Vesting of shares awarded under this plan was triggered by the acquisition of Kelda Group plc (now Limited) by Saltaire Water Limited in February 2008 and the Plan was then closed. Details of the vesting of these shares were given in the regulatory accounts for 2007/08.

Following the acquisition, the committee conducted a review of the Group's executive incentive arrangements for executive directors. A revised cash LTIP was developed and established during the year under which the first conditional awards were granted in November 2008.

The awards as originally granted in November 2008 were subject to two performance conditions which were to be measured over a three year period.

70% of the award is subject to the valuation of the investment made by the investors in Kelda at the end of the relevant three year performance period as determined by an independent valuer.

The remaining 30% of the award was based on the company's Operating Efficiency and Capital Maintenance Efficiency performance relative to the other nine water and sewerage companies based on Ofwat published data. Ofwat's report on 'Water and Sewerage Service Unit Costs and Relative Efficiency' (the Ofwat Report) was to be used to produce an average ranking for the company for the financial year for the four operating and capital efficiency measures.

The Ofwat Report used to contain Ofwat's assessment of each water company's operating and capital maintenance efficiency for water and, in respect of the water and sewerage companies, the same efficiency measures in respect of sewerage. These assessments are based primarily on Ofwat's econometric models and unit cost comparisons.

Based on these assessments, the Ofwat Report used to contain a ranking amongst the companies based on their relative performance for each of the four measures (Operating Efficiency – Water; Capital Maintenance Efficiency – Water; Operating Efficiency – Sewerage; Capital Maintenance Efficiency – Sewerage). For the purposes of this performance condition, the water only companies are excluded from the analysis as they do not feature in the sewerage measures, leaving the ten water and sewerage companies as the comparator group.

This process of producing an average ranking would be repeated for the next two years in the performance period to establish an average for the three years. On the basis of this overall average, a ranking is established (with the company having the lowest overall average being ranked 1st and so on).

Vesting of 30% of the award was to be in accordance with the table below;

Ofwat Ranking:	Percentage of Award Vesting (for 30% of the Award):
1	100%
2	100%
3-5	Pro rata between 0% and 100%
6 and below	0%

However, since the awards were granted Ofwat have ceased to report on Capital Maintenance Efficiency – Water and Capital Maintenance Efficiency – Sewerage, and therefore these measures have since become obsolete.

As a result the Committee met in May 2009 and varied the performance condition for the 2008 awards to replace the Capital Maintenance measures with a performance condition that measures performance against the phased capital efficiency target for the relevant award year and calculates a cumulative efficiency performance over a three year period (the "Capital Efficiency Measure").

Subsequently Ofwat also ceased to report on Operating Efficiency – Water and Operating Efficiency – Sewerage although reports are available for the first two years of the term for the 2008 awards. As a result the Committee met on 2 March 2011 and varied the performance condition for the 2008 awards for the third year of the term to replace the Operating Efficiency measures with a performance condition that measures financial performance against the company's EBITDA target for that third year.

As a result of these changes vesting of 30% of the 2008 award was to be in accordance with the tables below:

Ofwat Ranking:	Percentage of Award Vesting (for 10% of the Award)
1	100%
2	100%
3-5	Pro rata between 0% and 100%
6 and below	0%

Capital Efficiency Measure	Percentage of Award Vesting (for 15% of the Award)
100%	100%
At least 75% but below 100%	Pro rata between 0% and 100%
Below 75%	0%

EBITDA Measure	Percentage of Award Vesting (for 5% of the Award):
100%	100%
At least 90% but below 100%	Pro rata between 0% and 100%
Below 90%	0%

No awards will vest under the Plan unless, in the opinion of the Committee, the underlying financial performance of the company has been satisfactory over the performance period, taking into account all relevant circumstances. The Committee has the power to scale back vesting to any extent considered appropriate in light of the company's financial performance.

At its meeting in May 2009 the Committee granted a second set of conditional awards. At its meeting on 2 March 2011 the Committee granted a third set of conditional awards based on the above amended performance conditions and amended the 2009 awards to reflect the changes to the Ofwat Report.

Ofwat Ranking:	Percentage of Award Vesting (for 5% of the Award)
1	100%
2	100%
3 – 5	Pro rata between 0% and 100%
6 and below	0%

Accordingly vesting of 30% of the 2009 award was to be in accordance with the tables below;

Capital Efficiency Measure	Percentage of Award Vesting (for 15% of the Award)
100%	100%
At least 75% but below 100%	Pro rata between 0% and 100%
Below 75%	0%

EBITDA Measure	Percentage of Award Vesting (for 10% of the Award)
100%	100%
At least 90% but below 100%	Pro rata between 0% and 100%
Below 90%	0%

Vesting of 30% of the 2010 award (granted on 2 March 2011) is to be in accordance with the tables below;

Capital Efficiency Measure	Percentage of Award Vesting (for 15% of the Award)
100%	100%
At least 75% but below 100%	Pro rata between 0% and 100%
Below 75%	0%

EBITDA Measure	Percentage of Award Vesting (for 15% of the Award)
100%	100%
At least 90% but below 100%	Pro rata between 0% and 100%
Below 90%	0%

The Committee conducted a further review of the Group's LTIP arrangements and a revised set of performance conditions were developed during 2011/12. The committee determined that customer service should provide a "gateway" to any award as measured by Ofwat's customer service mechanism. Once through that "gateway" delivery of cashflow targets would provide a cash value to vest. Finally long term management of the company's assets through by assessment against Ofwat's serviceability measures will secure the payment for vesting. A bonus for top customer service performance will be added.

If ranked 1st or 2nd in SIM league table for WASCs, the sum to vest will be 110% of the value at step 3.

At its meeting on 25 May 2011 the Committee adopted a revised set of conditions and at its meetings on 25 May 2011 and 26 April 2012 and by written resolution dated 12 June 2013 the Committee granted sets of conditional awards based on the new performance conditions which are summarised below;

Step 1 – Ofwat Performance Condition

The Ofwat Performance Condition is met only if the Ofwat Ranking of the company is in the top half of the Ofwat Comparator Group (i.e. performance relative to the other nine water and sewerage companies based on Ofwat published data) for the Ofwat Service Incentive Mechanism (SIM) measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award and 2015/16 for the 2012 award) and the award shall vest in accordance with the steps 2 – 4 opposite.

If the Ofwat Ranking of the company is in the bottom half of the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award and 2015/16 for the 2013 award) then the Ofwat Performance Condition shall not be met and the award shall not vest.

Step 2 – Cashflow Performance Condition

Following the end of the three year performance period, the committee is to determine the Cashflow Measure. The Cashflow Performance Condition is that, subject to the Serviceability Performance Condition set out in step 3 below, a percentage for vesting of the award shall be determined in accordance with the following table.

Cashflow Measure	Percentage Determined
Targeted Cashflow is at least 120%	100%
Targeted Cashflow is at least 100% but below 120%	Pro rata between 70% and 100%
Targeted Cashflow is at least 90% but below 100%	Pro rata between 0% and 100%
Targeted Cashflow is less than 90%	0%

Step 3 – Serviceability Performance Condition

The Serviceability Performance Condition is that, subject to the SIM Bonus set out in step 4 below, 25% of the percentage determined under Step 2 shall vest in respect of the awards for each Ofwat serviceability measure as assessed in the Ofwat Report (or where replaced by such regulatory self reporting procedures that are compliant with Ofwat guidance as assessed by those regulatory self reporting procedures for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award and 2015/16 for the 2013 award) as "stable" or "improving".

Step 4 – SIM Bonus

In the event that the Ofwat ranking of the company is 1st or 2nd amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award and 2015/16 for the 2013 award) then a further 10% will be added to the amount to vest in respect of the award, i.e. the amount to vest would be 110% of the value derived after step 3.

In the event that the Ofwat ranking of the company is 3rd or lower amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award and 2015/16 for the 2013 award) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

Details of the vesting of the 2008 awards were given in the regulatory accounts for 2010/11.

Details of the vesting of the 2009 awards were given in the regulatory accounts for 2011/12.

At a meeting on 28 March 2013 confirmed by subsequent written resolution the Committee determined an overall level of vesting of the 2010 awards at 60%. This resulted in payments to the directors in accordance with the table below and were paid in June 2013.

(Note: Liz Barber, Michelle Lewis and Helen Phillips were not participants in the 2010 LTIP scheme):

	Vesting %	Vesting £
Graham Dixon	60	132,956
Richard Flint	60	396,000
Charlie Haysom	60	45,585
Mark Penny*	60	61,750
Pamela Rogerson	60	45,000
Kevin Whiteman*	60	810,000

*Notes

1 The payment in respect of Mark Penny is pro rated to the date of his resignation on 14 October 2011.

2 The payment in respect of Kevin Whiteman related to an award that was made in 2010 in accordance with his terms and conditions as chief executive before he joined the committee. He did not take part in the committee's vesting deliberations. This vesting is the last LTIP vesting to be made in respect of Kevin Whiteman.

Kevin Whiteman, Richard Flint and Liz Barber were directors of Kelda Holdings Limited during 2012/13 and their LTIP payments are shown in full however they carry out other Group responsibilities and a portion of their LTIPs are recharged to other Group companies accordingly.

Non-executive directors

The chairman of the board is paid an annual fee of £250,000 in respect of his role as chairman of Kelda Holdings Limited and other Group responsibilities. The other non-executive directors of the company are paid a fee of £25,000 per annum.

The non-executive directors do not participate in the annual incentive scheme, the LTIP or group pension plan.

Service contracts

The company's policy on the duration of contracts with executive directors, is that they should not normally be of fixed duration, should be subject to twelve months' notice by the company and six months' notice by the director. The notice periods have been selected to be consistent with current corporate governance best practice. Termination payments are made in accordance with the terms of the contract. Service contracts do not generally contain payment in lieu of notice clauses, and terminate automatically on retirement.

The company's policy in respect of non-executive directors is to make appointments generally of two years' duration, the terms of which do not contain any express provision for notice periods or termination payments in the event of early termination of their appointment. Appointments may be renewed by mutual agreement for up to two further two year periods subject to a total period of nine years' service with the company.

The executive directors entered into service agreements with the company on the dates set out in the table below. The contracts are not of fixed duration and each provide for notice periods of twelve months by the company and six months by the director. The agreements do not contain any specific provision for compensation payable on early termination, and any termination payment would be calculated to take account of the contractual notice period and any annual incentive payment which would have been paid, subject to the achievement of performance objectives, and taking into account the period actually worked.

Richard Flint	11 November 2009
Liz Barber	30 April 2010
Charlie Haysom	1 April 2011
Michelle Lewis	27 April 2012
Nevil Muncaster	13 March 2013
Helen Phillips	23 November 2011
Pamela Rogerson	1 April 2011

Kevin Whiteman's current appointment as chairman of the board took effect on 1 August 2011 and is for term of two years subject to extension. The terms of appointment do not contain any provisions for notice periods or for compensation in the event of early termination.

The appointments of the other non-executive directors took effect from the dates set out in the table below for a period of two years in each case.

Martin Havenhand	1 October 2012
Roger Hyde	27 June 2012
Kathryn Pinnock	1 March 2012

Upon expiry of the appointment in respect of Roger Hyde he will have served nine years with the company. It is not the company's intention to extend the appointment for a further term of two years upon expiry of the existing period of appointment.

The terms of appointment do not contain any provisions for notice periods or for compensation in the event of early termination.

Directors' emoluments

	Salary/ fees £000	Annual bonus £000	Long term incentive plan £000	Benefits in kind £000	Termination payment £000	Total 2013 £000	Total 2012 £000
Executive directors							
Richard Flint	370	315	396	10	-	**1,091**	763
Liz Barber	262	211	-	3	-	**476**	440
Graham Dixon (retired 3 March 2013)	156	86	133	3	-	**378**	350
Alan Harrison (resigned 4 April 2012)	3	-	-	3	86	**92**	328
Charles Haysom	125	79	46	10	-	**260**	203
Michelle Lewis (appointed 29 May 2012)	106	58	-	1	-	**165**	-
Mark Penny (resigned 14 October 2011)	-	-	62	-	-	**62**	143
Helen Phillips	170	107	-	13	-	**290**	15
Pamela Rogerson	121	72	45	11	-	**249**	171
Non–executive directors							
Kevin Whiteman	250	-	810	17	-	**1,077**	886
Martin Havenhand	25	-	-	-	-	**25**	20
Roger Hyde	25	-	-	-	-	**25**	20
Kathryn Pinnock	25	-	-	-	-	**25**	20
Total	**1,638**	**928**	**1,492**	**71**	**86**	**4,215**	**3,359**

Kevin Whiteman, Richard Flint and Liz Barber were also directors of Kelda Holdings Limited during 2012/13. Their emoluments are shown here in full however they carry out other group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant group company.

The long term incentive plan (LTIP) payment in respect of Kevin Whiteman related to an award that was made in 2010 in accordance with his terms and conditions as chief executive and before he joined the remuneration committee. He did not take part in the committee's vesting deliberations. This vesting is the last LTIP vesting to be made in respect of Kevin Whiteman.

Pensions

£	1	2	3	4	5	6	7	8	9
	Accrued pension at 31 March 2013	Accrued pension at 31 March 2012	Increase in accrued pension	Increase in accrued pension (3) allowing for inflation	Transfer value of increase in accrued pension (4) less member contributions (9)	Transfer value at 31 March 2013	Transfer value at 31 March 2012	Change in transfer value over the period less member contributions (6) – (7) – (9)	Director's contributions over the period
Richard Flint	88,298	73,472	14,826	12,548	177,601	1,405,919	1,046,131	337,588	22,200
Graham Dixon	114,081	107,964	6,117	2,770	61,173	2,909,439	2,552,658	347,307	9,474
Alan Harrison	110,457	106,017	4,440	941	17,157	2,635,416	2,504,227	125,884	5,305
Charlie Haysom	76,691	60,991	15,700	13,809	302,025	1,719,793	1,256,689	455,456	7,648
Michelle Lewis	11,289	8,681	2,608	2,322	31,479	184,027	127,120	50,542	6,365
Pamela Rogerson	39,141	29,579	9,562	8,586	124,264	599,612	405,000	187,347	7,265

Notes:

1. The age at which members can retire with an unreduced pension is 60 years.
2. The spouse's pension on death after retirement is 50% of the member's pension before any cash commutation.
3. The spouse's pension on death before retirement after leaving service is 50% of the member's accrued pension.
4. Pension increases in payment for the WPS pension scheme members are guaranteed to be in line with the level of the increase in RPI provided the plan's actuary confirms that the plan's resources are sufficient to meet the cost. If it is not possible to provide this confirmation in any year, an increase of 6% (or the increase in the RPI if less) will always be provided. A test will also be applied at retirement to ensure that the minimum increases required by legislation have been awarded.
5. Pension increases in payment for Family Plus members are in line with the increase in RPI up to a maximum of 5%.
6. Transfer values have been calculated in accordance with the Occupational Pension Schemes (Transfer Value) Regulations 1996. The assumptions used are consistent with those used for transfer values payable from the Kelda Group Pension Plan.
7. Two members retired part way through the year – Alan Harrison retired as an employee with effect from 31 August 2012 and Graham Dixon on 3 March 2013. The figures shown in note 1 above are the pension figures at these members' respective retirement dates before allowing for the cash that the members elected to take on retirement.
8. For Alan Harrison and Graham Dixon the transfer value figures at 31 March 2013 are based on the pension figures shown in column 1.
9. Michelle Lewis became an executive member of the Kelda Group Pension Plan with effect from 29 May 2012. The pension figures shown relate to all of her service with the Company including service before she was promoted.
10. Any Additional Voluntary Contributions paid by the directors and the resulting benefits are not shown.

Liz Barber and Helen Phillips are members of the Kelda Stakeholder+ Arrangement, a defined contribution scheme established in 2007.

The contributions made on their behalf by the company and their own contributions during the year are as follows:

	Company contribution	Member's contribution
Liz Barber	£79,202	£15,840
Helen Phillips	£40,800	£10,200

Profit and Loss Account

For the year ended 31 March 2013

	Note	2013 £m	2012 £m
Turnover		**936.2**	893.6
Operating costs			
Operating costs before exceptional costs	2	**(604.7)**	(580.7)
Exceptional operating costs	2	–	(9.6)
Total operating costs		**(604.7)**	(590.3)
Operating profit		**331.5**	**303.3**
Net interest payable and similar charges			
Net interest payable and similar charges before exceptional costs	3	**(193.3)**	(234.8)
Non operating exceptional costs	3	**48.0**	-
Net interest payable and similar charges – total	3	**(145.3)**	(234.8)
Profit on ordinary activities before tax		**186.2**	**68.5**
Tax on profit on ordinary activities	4	**62.3**	9.2
Profit for the financial year	16	**248.5**	**77.7**

All of the above results relate to continuing activities.

There is no material difference between the profit before tax and the profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the revaluation of certain tangible fixed assets.

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2013

There are no recognised gains or losses other than those included in the profit and loss account.

Balance sheet

As at 31 March 2013

	Note	2013 £m	2012 £m
Fixed assets			
Intangible assets	6	5.7	6.6
Tangible assets	7	6,279.6	6,143.9
Investments	8	0.1	0.1
		6,285.4	6,150.6
Current assets			
Debtors falling due within one year	10	185.9	186.6
Debtors falling due after more than one year	10	1,273.3	1,289.5
Debtors – total	10	1,459.2	1,476.1
Stock	9	1.1	1.2
Cash at bank and in hand	12	32.0	8.3
		1,492.3	1,485.6
Creditors: amounts falling due within one year			
Short term borrowings	12	(53.8)	(55.7)
Other creditors	11	(317.3)	(319.3)
		(371.7)	(375.0)
Net current assets		1,121.2	1,110.6
Total assets less current liabilities		7,406.6	7,261.2
Creditors: amounts falling due after more than one year			
Long term borrowings	12	(4,410.9)	(4,120.7)
Other creditors	11	(104.0)	(125.5)
		(4,514.9)	(4,246.2)
Provisions for liabilities and charges	14	(385.1)	(499.8)
Net assets		2,506.6	2,515.2
Capital and reserves			
Called up share capital	15	10.0	10.0
Profit and loss reserve	16	834.9	842.7
Share based payment reserve	16	3.5	3.5
Revaluation reserve	16	1,658.2	1,659.0
Total shareholder's funds	16	2,506.6	2,515.2

The financial statements on pages 53 to 73 were approved by the board of directors on 3 July 2013 and signed on their behalf by:

Richard Flint
Chief Executive Officer

Yorkshire Water Services Limited
Registered in England no. 2366682

Notes to the Financial Statements

For the year ended 31 March 2013

1. Accounting policies

The following paragraphs summarise the more important accounting policies applied in the preparation of the financial statements.

Basis of preparation and accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain tangible fixed assets, 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 accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the company's circumstances, have been consistently applied and are supported by reasonable and prudent estimates and judgements.

The financial statements present information about the company as an individual company undertaking and do not contain consolidated financial information as the parent of a group. The company is exempt from preparing group financial statements under Section 400 of the Companies Act 2006 as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate UK parent, Kelda Eurobond Co Limited, a company registered in England and Wales.

The financial statements do not include a cashflow statement because the cashflows of the company are consolidated in the cashflow statement of the Kelda Eurobond Co Limited financial statements in accordance with FRS 1 (Revised).

Turnover

Turnover comprises charges to customers for water, sewerage and other services excluding value added tax and is derived only from the United Kingdom.

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

No turnover is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant turnover is cancelled. Generally a property is classed as void if it is unoccupied and unfurnished.

Pensions

The company accounts for its pensions in accordance with FRS 17 "Retirement Benefits". A majority of the company's employees participate in the Kelda Group Pension Plan (KGPP), a group defined benefit pension scheme as described in note 19 of the financial statements. The KGPP is a group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other companies in the KGPP. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it was a defined contribution scheme. The KGPP closed to new members in 2006.

The company also provides a defined contribution scheme, Kelda Stakeholder+, which is available to new and existing employees.

Research and development expenditure

Research and development expenditure is written off in the profit and loss account in the financial year in which it is incurred. Expenditure on fixed assets relating to development projects is written off over the expected useful life of those assets.

Taxation

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

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

- Provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets; and
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted.

Investments

Other fixed asset investments are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Intangible assets

Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised and amortised on a straight line basis over its economic useful life, which normally will not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. When it is determined that the carrying value of goodwill exceeds the recoverable amount, the excess is written off to the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets comprise the following:

i) Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets to increase capacity or enhance the network and to maintain the operating capability of the network in accordance with defined standards of service is treated as a fixed asset addition and included at cost after deducting grants and contributions.

Following a change in accounting policy in 2012, infrastructure assets are held at valuation with external valuations being undertaken on a periodic basis. An interim valuation is booked in the intervening years if in the view of the directors there has been a material change. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network based on an independently certified asset management plan.

Adopted assets, including privates drains and sewers, are recognised at cost, which is generally £nil.

ii) Other tangible fixed assets

Following a change in accounting policy in 2009, residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible fixed assets are included at cost, which represents the purchase price, less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are expensed as incurred.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets (including those assets held at valuation, where appropriate) on a straight line basis over their estimated economic lives, or the estimated useful economic lives of their individual major components, from the month following commissioning.

Useful economic lives are principally as follows:

Buildings	25 - 100 years
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years

Fixed plant, vehicles, mobile plant and computers are classified as plant and equipment within note 7. Assets under construction are not depreciated until they are brought into use.

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 in the view of the directors there has been a material change.

iii) Leased assets

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in tangible fixed assets and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the profit and loss account 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 profit and loss account over the term of the lease in proportion to the capital amount outstanding.

All other leases are operating leases and the rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Grants and contributions

Grants and contributions in respect of tangible assets, other than infrastructure assets as described below, are deferred and credited to the profit and loss account by instalments over the expected economic useful lives of the related assets.

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with the Companies Act 2006, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. The presentation is adopted because infrastructure assets do not have determinable finite lives and therefore such grants and contributions would remain as liabilities in perpetuity. The directors consider that the company's presentation shows a true and fair view of the investment in infrastructure assets.

Grants and contributions received in respect of expenditure charged to the profit and loss account during the year are included in the profit and loss account.

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

Receipts in advance
Receipts in advance include the monies received from customers where the related turnover has not yet been recognised and also grants and contributions received in relation to capital schemes where the work has not yet commenced. They are recognised within other creditors until the related revenue or costs are recognised.

Foreign currencies
Individual transactions denominated in foreign currencies are translated into sterling at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the balance sheet date. Profits and losses on both individual currency transactions settled during the year and unsettled monetary assets and liabilities are dealt with in the profit and loss account.

Provisions
Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision is made in accordance with FRS 12 "Provisions, contingencies and commitments" for self insured claims, including an estimate for claims incurred but not reported.

Provisions also include index linked swaps novated from Saltaire Water Limited to Yorkshire Water in August 2008. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value and are held in the balance sheet as a provision. This provision is being amortised over the life of the swaps (38 years) and is not discounted. This provision is reviewed at each balance sheet date against the mark to market valuation of the swaps.

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

Interest rate swaps and cross-currency interest rate swaps
Interest rate swaps (and cross-currency interest rate swaps) are used to hedge the company's exposure to fluctuations in interest rates and foreign exchange rates on its borrowings. The amounts payable or receivable in respect of interest rate swaps are accounted for on an accruals basis through adjustments to the interest expense of the corresponding liability.

Index linked swaps
Index linked swaps are intended to hedge Yorkshire Water's exposure to movements in RPI against its LIBOR linked borrowings.

Yorkshire Water applies hedge accounting for its swaps to the extent that there is sufficient floating rate debt within Yorkshire Water, over the entire life of the swap, from existing or expected future debt. To the extent that there is insufficient floating rate debt and the mark to mark valuation of the swap is negative, any exposure relating to the portion of the swap that is not hedged is provided for in the balance sheet as an onerous contract provision.

The swaps have three cashflows:

- Six monthly interest receivable linked to LIBOR;
- Six monthly interest payable linked to RPI; and
- An RPI-linked final bullet payment that is payable on maturity of the instruments or at certain predetermined points in time over the life of the swaps.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet is calculated based on the RPI at the measurement date, accrued in the profit and loss account and recognised within long term borrowings.

These swaps were novated to Yorkshire Water from Saltaire Water Limited in August 2008 at which time the swaps were out of the money by £308.9m. This value was reflected in Yorkshire Water's balance sheet as an intercompany debtor, with a provision for the same amount. The onerous contract provision above takes into account the amortised novation provision.

The calculation of the onerous contract provision takes account of both the RPI swaps and the interest rate (finance lease) swaps. In line with FRS12 the provision required is assessed on an annual basis and movements in the provision are shown as exceptional interest costs (note 3).

The company is not required to prepare its financial statements in accordance with FRS 26 and apart from the provisions noted above its index linked swaps are not recognised in the financial statements in accordance with UK GAAP (note 14).

2. Operating profit

Operating profit (before exceptional costs) is stated after (crediting)/charging:

	2013 £m	2012 £m
Own work capitalised	(39.1)	(35.8)
Raw materials and consumables	29.4	26.6
Other external charges	261.6	255.2
Wages and salaries	79.7	76.7
Social security costs	7.5	7.2
Pension costs (note 19)	28.5	27.5
Depreciation of fixed tangible assets (note 7):		
On owned assets		
– infrastructure	63.3	59.8
– other assets	164.9	155.8
On assets held under finance leases		
– infrastructure	1.0	1.6
– other assets	8.2	8.5
Operating lease charges		
– plant and equipment	1.9	1.9
– other	1.8	0.6
Amortisation of grants and contributions	(2.9)	(3.3)
Amortisation of goodwill (note 6)	0.9	1.0
Restructuring costs	1.5	0.6
Research and development	0.7	0.7
Other operating income	(4.2)	(3.9)
Total	**604.7**	**580.7**

Exceptional operating costs

The exceptional costs in the prior year arose following the severe winters experienced during 2009/10 and 2010/11. Yorkshire Water's network of water mains suffered an increase in the number of bursts and consequently experienced a higher level of leakage. During 2011/12 additional expenditure was incurred to improve leakage performance such that leakage targets could be achieved even in the event of another severe winter. The additional spend was monitored separately by management and was over and above historic levels of investment. The additional spend of £9.6m was material and therefore was disclosed separately within the financial statements in line with FRS 3. There were no exceptional operating costs in 2012/13.

Services provided by the company's auditors

During the year the company obtained the following services from its auditors at costs as detailed below:

	2013 £'000	2012 £'000
Fees payable for the audit	150	151
Fees payable for taxation services	–	8
Fees payable for other services	63	14
Total	**213**	**173**

Average number of employees

The average number of persons employed by the company during the year was:

	2013 Number	2012 Number
Operational	1,879	1,882
Capital investment	110	102
Administration	520	505
Total average number of employees	**2,509**	**2,489**

Directors' emoluments

	2013 £'000	2012 £'000
Aggregate emoluments	4,215	3,359
The amounts in respect of the highest paid director are as follows:		
Emoluments	**1,091**	**763**

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

During 2012/13, all except two executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. Two directors were contributory members of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2012/13 was £88,298 (2012: £73,472).

Kevin Whiteman, Richard Flint and Liz Barber were directors of Kelda Holdings Limited during 2012/13. Their emoluments are shown here in full however they carry out other group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant group company.

3. Interest payable and similar charges before exceptional costs

	2013 £m	2012 £m
Interest receivable and similar income:		
Inter-company loans	(68.7)	(58.2)
Index linked swaps	(14.0)	(14.7)
Amortisation of fair value of index linked swaps (note 14)	(8.1)	(8.1)
Net interest receivable in swaps on bonds in YW Bradford	(4.7)	–
Other	(0.2)	(0.3)
Total	**(95.7)**	**(81.3)**
Interest payable and similar charges:		
Bank loans and overdrafts	16.4	15.3
Finance leases	7.1	7.6
Inter-company loans	193.8	179.1
RPI uplift on index linked swaps	27.7	63.8
Interest rate swap interest	1.9	4.7
Index linked swaps coupon payable	38.3	36.7
Other	3.8	8.9
Total	**289.0**	**316.1**
Net interest payable	**193.3**	**234.8**

Net interest payable includes one off, non-recurring fees of £0.8m (2012: £3.2m).

Interest payments on various finance leases due around the year end were paid either side of 31 March 2013 resulting in net £10.0m (2012: £9.3m) higher interest payments during the year. These payments are included within prepayments (note 10) and are not included within the interest charge shown above.

Yorkshire Water holds certain index linked swaps with a nominal value of £1,289.0m which had an adverse market value of £1,729.0m at 31 March 2013. At the balance sheet date it was concluded that due to the levels of floating rate debt held which now offset the floating rate element of the swaps, the swaps no longer constitute an onerous contract under FRS12. The provision held of £48.0m relating to the onerous contract has therefore been released during 2012/13 resulting in an exceptional credit of £48.0m. See note 13.

£68.7m interest receivable on inter company loans during the year was received from Kelda Holdco Limited.

4. Tax credit on profit on ordinary activities

	2013 £m	2012 £m
Current tax:		
Corporation tax at 24% (2012: 26%)	**0.8**	0.7
Adjustments in respect of prior years	**(4.7)**	(19.6)
Total current tax	**(3.9)**	**(18.9)**
Deferred tax:		
Charge for timing differences arising and reversing in the year	**4.0**	(21.2)
Adjustments in respect of prior years	**1.1**	1.1
	5.1	**(20.1)**
Increase/(decrease) in discount	**(45.0)**	65.8
Effect of change in tax rate	**(18.5)**	(36.0)
Total deferred tax (note 14)	**(58.4)**	**9.7**
Total tax credit:	**(62.3)**	**(9.2)**

Note 14 shows further detail on the discounting of the deferred tax provision.

The difference between the total current tax charge shown and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2013 £m	2012 £m
Profit on ordinary activities before tax	**186.2**	68.5
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% (2012: 26%)	**44.7**	17.8
Effects of:		
Income not chargeable for tax purposes	**(5.8)**	(1.1)
Expenses not deductible for tax purposes	**5.4**	7.4
Capital allowances less than depreciation and other timing differences	**(3.4)**	16.0
Movement in short term timing differences	**-**	0.1
Effect of gains (incl. Rollover relief)	**(0.2)**	–
Utilisation of tax losses in other group companies	**(39.9)**	(39.5)
Adjustments in respect of prior years	**(4.7)**	(19.6)
Current tax credit for the year	**(3.9)**	**(18.9)**

In 2013 the adjustments in respect of prior years of £4.7m relate to a number of issues including; the release of an over provision of tax in relation to previous periods following agreement with HM Revenue and Customs on the tax treatment of particular costs; an accrual for additional tax to be paid in relation to previous periods; and a reduction in the amount of tax losses required to be paid for from other Kelda Group companies.

The tax charge in future periods will continue to be affected by changes in the medium and long-term interest rates used to discount deferred tax assets and liabilities that will affect the amount of deferred tax charged in the profit and loss account.

The Finance Act 2012 introduced a reduction in the rate of corporation tax from 26% to 24% from 1 April 2012 and from 24% to 23% from 1 April 2013. These rates were substantively enacted on 26 March 2012 and 3 July 2012 respectively and, therefore, are included in these financial statements.

Further reductions to the UK's corporation tax rate were announced in the March 2013 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 is expected to be included in the Finance Act 2013. A further reduction to the main rate to reduce the rate to 20% from 1 April 2015 will also be included in the Finance Act 2013. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes expected to be enacted in the Finance Act 2013 would be to reduce the deferred tax liability provided at the balance sheet date by £14.8m. This £14.8m decrease in the deferred tax liability would increase profit by £14.8m.

Of the net tax received by Yorkshire Water of £2.3m, £2.7m relates to the regulated business and a charge of £0.4m related to the non-regulated business.

5. Dividends

	2013 £m	2012 £m
Dividends paid in the year	**256.6**	63.4
Distribution of cash to parent company via loans	–	128.8
Total distributions	**256.6**	**192.2**

No final dividend for the year has been proposed.

£78.1m (2012: £63.4m) was distributed to Kelda Holdco Limited in order to allow Kelda Holdco Limited to make an interest payment and loan repayment on their loan from Yorkshire Water.

6. Intangible assets

	Goodwill £m
Cost	
Balance at 1 April 2012 and 31 March 2013	17.9
Amortisation	
Balance at 1 April 2012	(11.3)
Charge for the year	(0.9)
Balance at 31 March 2013	**(12.2)**
Net book amount as at 31 March 2013	**5.7**
Net book amount as at 31 March 2012	**6.6**

Goodwill arose on the transfer of the trade and net assets of The York WaterWorks Limited on 1 April 2000 and is being amortised over 19 years. The directors do not believe this should be impaired as it relates to assets which are still in continuing use within the business.

7. Tangible assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
At 1 April 2012	1,776.7	4,413.9	2,560.3	504.3	9,255.2
Additions	6.3	22.7	60.7	308.3	398.0
Transfers on commissioning	47.9	98.4	172.5	(318.8)	–
Transfer from deferred income	–	–	–	(12.0)	(12.0)
Disposals – external	(22.6)	–	(28.0)	(0.3)	(50.9)
Grants and contributions	–	–	–	(12.3)	(12.3)
At 31 March 2013	**1,808.3**	**4,535.0**	**2,765.5**	**469.2**	**9,578.0**
Depreciation					
At 1 April 2012	584.8	1,136.6	1,389.9	–	3,111.3
Disposals	(22.2)	–	(27.8)	(0.3)	(50.3)
Depreciation for the year	32.0	64.3	140.8	0.3	237.4
At 31 March 2013	**594.6**	**1,200.9**	**1,502.9**	**–**	**3,298.4**
Closing net book amount	**1,213.7**	**3,334.1**	**1,262.6**	**469.2**	**6,279.6**
Opening net book amount	1,191.9	3,277.3	1,170.4	504.3	6,143.9
At 31 March 2013 assets above held under finance leases amounted to:					
Cost	108.6	71.5	186.3	–	366.4
Depreciation	(33.6)	(24.4)	(132.1)	–	(190.1)
Closing net book amount	**75.0**	**47.1**	**54.2**	–	**176.3**
Opening net book amount	**77.4**	**48.8**	**63.2**	**–**	**189.4**

The net book amount of land and buildings comprised:	Cost at 31 March 2013 £m	Depreciation at 31 March 2013 £m	Net book value at 31 March 2013 £m	Net book value at 31 March 2012 £m
Freehold properties	1,629.1	(419.6)	1,209.5	1,187.3
Properties held on long lease	0.5	-	0.5	0.5
Properties held on short lease	5.1	(1.4)	3.7	4.1
Total	**1,634.7**	**(421.0)**	**1,213.7**	**1,191.9**

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The company's accounting policy in respect of grants and contributions is a departure from the Companies Act 2006 requirements and is adopted, as explained in the accounting policy note on page 56, in order to show a true and fair view of the investment in infrastructure assets. A review of deferred income during the year has resulted in a transfer of certain grants from deferred income to tangible fixed assets. Certain classes of the company's tangible fixed assets were revalued at 31 March 2012. These valuations were performed in accordance with FRS 15 which requires that assets subject to a policy of revaluation should be carried at their current value. In the prior year financial statements a prior year adjustment of £1,607.9m was made to reflect this revaluation.

Current value is defined in FRS 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value ("NRV") and Value in Use ("VIU").

Having considered the above definitions of value, management, based upon KPMG's advice, concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company is a two step approach:

- Estimating the business VIU, using a discounted cash flow ("DCF") model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value ("RCV"). This step was followed by:
- Allocating the VIU of the business (less relevant working capital balances and other adjustments) to individual classes of tangible fixed assets.

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

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £4,671.7m (2012: £4,536.0m).

Certain other categories of the company's land and buildings are also held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2009. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK. These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. No changes in values have been booked during the year.

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

Categories of assets revalued are as follows:

	Valuation £m	Historical cost basis £m
Infrastructure assets	3,277.3	1,669.4
Non-specialist properties	7.5	2.4
Rural estates	43.9	0.8
Residential properties	4.7	0.1
Total	**3,333.4**	**1,672.7**

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

	Valuation £m	Historical cost basis £m
31 March 2011	54.9	3.3
Disposal of revalued assets	(0.2)	–
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.3)	–
31 March 2012	54.4	3.3
Disposal of revalued assets	(0.5)	–
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.3)	–
31 March 2013	**53.6**	**3.3**

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

	Valuation £m	Historical cost basis £m
At cost	4,413.9	2,806.0
Aggregate depreciation	(1,136.6)	(1,136.6)
31 March 2012 and 31 March 2013	**3,277.3**	**1,669.4**

There have been no disposals or transfers of revalued infrastructure assets during the year.

If the revalued assets noted above were sold at the values shown, a tax charge of £398.0m would arise. However the infrastructure assets form an integral part of the business and as such Yorkshire Water have no plans to dispose of the assets.

8. Investments

Investments of £0.1m at 31 March 2013 and 31 March 2012 includes £27,119 of 8% Unsecured Loan Stock in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry.

The company has taken advantage of the exemption from preparing group financial statements under section 400 of the Companies Act 2006. Consolidated financial statements have been prepared by Kelda Eurobond Co Limited, the largest UK group to consolidate these financial statements. Copies can be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

9. Stock

	2013 £m	2012 £m
Raw materials and consumables	**1.1**	**1.2**

10. Debtors

	2013 £m	2012 £m
Receivable within one year		
Trade debtors	**82.0**	79.5
Amounts owed by Group undertakings	**18.1**	10.8
Amounts owed by subsidiary undertakings	**2.3**	2.3
Prepayments and accrued income	**62.6**	59.0
Taxation receivable	**4.9**	16.7
Other debtors	**16.0**	18.3
Total	**185.9**	**186.6**
Receivable after more than one year		
Amounts owed by Group undertakings	**1,273.2**	1,289.4
Other debtors	**0.1**	0.1
Total	**1,273.3**	**1,289.5**
Total debtors	**1,459.2**	**1,476.1**

Amounts owed by Group undertakings within one year and after more than one year includes £272.3m (2012: £280.4m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and £1,009.0m upstream loans to Kelda Holdco Limited (2012: £1,009.0m).

11. Other creditors

	2013 £m	2012 £m
Amounts falling due within one year:		
Trade creditors	57.3	53.3
Capital creditors	99.7	103.0
Deferred grants and contributions on depreciating fixed assets	2.9	2.9
Amounts owed to Group undertakings	6.7	14.2
Amounts owed to subsidiary undertakings	76.8	75.4
Social security and other taxes	2.0	2.0
Receipts in advance	50.6	48.6
Other creditors	21.3	19.9
Total	**317.3**	**319.3**
Amounts falling due after more than one year:		
Deferred grants and contributions on depreciating fixed assets	53.1	68.0
Other creditors	50.9	57.5
Total	**104.0**	**125.5**

Amounts owed to subsidiary companies are in relation to accrued interest on debt raised by subsidiaries and lent to Yorkshire Water to finance its operations.

12. Aggregate borrowings and cash

2013

	Bank loans and overdrafts £m	Other loans £m	Finance leases £m	Total £m
Short term borrowings:				
In one year or less or on demand	45.6	–	8.2	**53.8**
Long term borrowings:				
In more than one year, but not more than two years	28.6	–	28.8	57.4
In more than two years, but not more than five years	103.5	11.4	119.2	234.1
In more than five years	202.7	80.8	114.8	398.3
Total	**334.8**	**92.2**	**262.8**	**689.8**
Amounts owed to Group companies				3,721.1
Total				**4,410.9**
Cash at bank and in hand				**(32.0)**
Amounts owed from Group companies				**(1,009.0)**
Net debt at 31 March 2013				**3,423.7**

2012

	Bank loans and overdrafts £m	Other loans £m	Finance leases £m	Total £m
Short term borrowings:				
In one year or less or on demand	48.8	–	6.9	**55.7**
Long term borrowings:				
In more than one year, but not more than two years	34.0	–	24.6	58.6
In more than two years, but not more than five years	94.6	–	100.3	194.9
In more than five years	165.1	64.5	163.3	392.9
Total	**293.7**	**64.5**	**288.2**	**646.4**
Net amounts owed to Group companies				3,474.3
Total				**4,120.7**
Cash at bank and in hand				**(8.3)**
Amounts owed from Group companies				**(1,009.0)**
Net debt at 31 March 2012				3,159.1

Net amounts owed to Group companies includes £1,009.0m receivable (2012: £1,009.0m) in relation to loans to parent companies. This is disclosed within debtors receivable after more than one year.

Amounts owed to Group companies includes loans from other members of the Yorkshire Water Financing Group relating to bonds originally held by Yorkshire Water Services Finance Limited, subsequently exchanged for bonds held by Yorkshire Water Services Odsal Finance Limited (see note 3 to the regulatory accounts).

Yorkshire Water raises debt as part of the Yorkshire Water Financing Group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these financial statements on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Limited financial statements by £36.0m, which account for the exchanged bonds in line with International Accounting Standard 39.

Net debt includes unamortised issue costs of £4.7m (2012: £1.4m).

Borrowings repayable in instalments after more than five years include £114.9m (2012: £163.3m) in respect of finance leases which have expiry dates ranging from 2018 to 2043 and carry interest rates based on 12 month LIBOR (London Interbank Offered Rate) and 6 month LIBOR. The finance lease creditors are secured on the underlying assets.

As at 31 March 2013 Yorkshire Water had access to undrawn committed bank facilities totalling £335.0m (2012: £324.0m), £249m of which expires in October 2016. The cash at bank includes £6.4m of cash ring fenced in a swap collateral account. This balance is therefore excluded from covenant calculations.

13. Financial derivatives

Interest rate swaps

Yorkshire Water holds £45.0m nominal value (2012: £45.0m) of floating to fixed rate interest swaps. These swaps had an out of the money mark to market value of £22.6m at 31 March 2013 (2012: £19.4m).

Yorkshire Water holds £250m nominal value (2012: £nil) of fixed to floating rate interest swaps. These swaps had an out of the money mark to market of £7.3m at 31 March 2013.

Cross currency Interest rate swaps

Yorkshire Water hedges the fair value of the US Dollar bonds using a series of combined interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping dollar principal repayments into sterling and fixed rate dollar interest payments into floating rate sterling interest payments. These swaps had a positive mark to market value of £19.0m at 31 March 2013 (2012: £3.4m adverse).

Index linked swaps

In February 2008, Saltaire Water Limited, at that time an intermediate parent company, entered into certain index linked ('IL') swaps, with a nominal value of £1,289m.

These swaps were novated to Yorkshire Water in August 2008 at which time the swaps had an adverse market value of £308.9m. This value was reflected in Yorkshire Water's balance sheet as an intercompany debtor, receivable from Saltaire Water Limited, with a provision for the same amount. The provision is amortised through the Yorkshire Water profit and loss account over a 38 year period (being the remaining weighted average life of the swaps) and for 2012/13 the amortisation charge was £8.1m.

A proportion of these swaps have mandatory break dates prior to the ultimate maturity date and during 2011/12 the portfolio was reprofiled such that break dates in 2012 and 2014 were removed. This was achieved by, amongst other things, moving a proportion of the swap portfolio (£463m) to a Pay-As-You-Go ("PAYG") structure whereby Yorkshire Water paid down the RPI accretion to date at the time of the restructure and agreed to pay future RPI accretions at five yearly intervals. Swaps not subject to a PAYG structure pay RPI accretion in one single payment on maturity.

Post the restructure, the total nominal amount of the swaps remained unchanged at £1,289m with maturity dates ranging from 2026 to 2063; £837m of the restructured swap portfolio have no mandatory break dates. The remaining swaps totalling £452m have break dates in 2018, 2020, 2023 and 2025.

There are three cashflows associated with the swaps:

- Six monthly interest receivable linked to LIBOR;
- Six monthly interest payable linked to RPI; and
- An RPI-linked final bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date is discounted using an average of the 25 and 30 year gilt rate at the relevant date, accrued in the profit and loss account and recognised within long term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short term, these swaps gave rise to an out of the money mark to market value of £1,729.0m (2012: £1,403.7m) at the year end date. Of this £92.2m (2012: £64.5m) has been recognised within long term borrowings, this represents the discounted value of the RPI bullet accrued to 31 March 2013, the RPI bullet accrued to 31 March 2013 was £188.7m which reduced by £96.5m when discounted to present values.

A further £271.3m is included within provisions for liabilities and charges (2012: £327.4m) (note 14). This includes the amortised provision created on novation of the swaps discussed above as well as any element of the swaps which are considered to be an onerous contract in relation to the unhedged portion of the interest rate and index linked swaps.

When calculating the size of the provision required at 31 March 2013, the directors have considered:

- The proportion of the swaps that are effectively hedging the floating rate debt held by Yorkshire Water and the further floating rate debt to be taken out by Yorkshire Water; and
- The fact that the swaps are held for the long term benefit of the business and provide a hedge against existing and future floating rate debt as Yorkshire Water gears up in the foreseeable future under the securitised structure.

At 31 March 2012 an onerous contract provision of £48.0m was held representing the unhedged portion of the mark to market. The increase in index linked debt during the year ended 31 March 2013 however means that the swaps no longer constitute an onerous contract in line with FRS12. The provision held of £48.0m has therefore been released as an exceptional credit.

All of the swaps outlined above were valued using information provided by external consultants, using a discounted cash flow model and quoted market information. This information is reviewed by the Group treasury department and discussed with relevant directors to ensure it is appropriate for use.

14. Provisions for liabilities and charges

	Index linked swaps provision £m	Deferred tax £m	Self insurance £m	Total £m
At 1 April 2011	335.5	162.0	0.4	497.9
(Credited)/charged to the profit and loss account or utilised in the year	(8.1)	9.7	0.3	1.9
At 31 March 2012	**327.4**	**171.7**	**0.7**	**499.8**
Credited to the profit and loss account and utilised in the year	**(56.1)**	**(58.4)**	**(0.2)**	**(114.7)**
At 31 March 2013	**271.3**	**113.3**	**0.5**	**385.1**

	2013 £m	2012 £m
Deferred tax		
Deferred tax (credited)/charged to the profit and loss account	**171.7**	162.0
Adjustments in respect of prior years	**(59.5)**	8.6
At 31 March	**1.1**	1.1
Total	**113.3**	**171.7**

	2013 £m	2012 £m
Deferred tax is provided as follows:		
Accelerated capital allowances	**427.2**	440.5
Short term timing differences	**(1.1)**	(1.0)
Undiscounted provision for deferred tax	**426.1**	**439.5**
Discount	**(312.8)**	(267.8)
Discounted provision for deferred tax	**113.3**	**171.7**

The corporation tax rate of 23% (2012: 24%) has been used to calculate the amount of deferred tax. In accordance with FRS 19 in order to reflect the time value of money, the company discounts its deferred tax liability. The period of discounting runs until the underlying timing differences completely reverse. In carrying out this calculation, all future movements in the accelerated capital allowances and depreciation charges are scheduled out on a yearly basis, taking account of future depreciation rates. No account is taken of timing differences that might arise on fixed assets expected to be purchased in the future. The discount rate used is the post-tax yield on Government gilts with equivalent maturity dates and currency to those of the deferred tax balance, at the balance sheet date. The deferred tax credit for the year is shown in note 7.

15. Called up share capital

	Authorised £	Allotted and fully paid £
10,000,000 ordinary shares of £1 each at 31 March 2012 and 31 March 2013	10,000,000	10,000,000

16. Movement in total shareholder's funds

	Profit and loss reserve £m	Share-based payment reserve £m	Share capital £m	Revaluation reserve £m	Total shareholder's funds £m
At 1 April 2011	827.9	3.5	10.0	1,659.5	2,500.9
Profit for the year	77.7	-	-	-	77.7
Dividends	(63.4)	-	-	-	(63.4)
Revaluation reserve released during the year	0.5	-	-	(0.5)	-
At 31 March 2012	**842.7**	**3.5**	**10.0**	**1,659.0**	**2,515.2**
Profit for the year	248.5	-	-	-	248.5
Dividends	(256.6)	-	-	-	(256.6)
Revaluation reserve released during the year	0.8	-	-	(0.8)	-
Other	(0.5)	-	-	-	(0.5)
At 31 March 2013	**834.9**	**3.5**	**10.0**	**1,658.2**	**2,506.6**

17. Capital and other financial commitments

	2013 £m	2012 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were	326.2	267.6

The long term investment programme for the company, which identified substantial future capital expenditure commitments in the period 2010 to 2015, was agreed as part of the Periodic Review process which was finalised in December 2009.

At the year end the company was committed to making the following annual payments during the next financial year under non-cancellable operating leases expiring as set out below:

	2013		2012	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	0.1	0.2	-	1.0
Between two and five years	-	1.9	-	1.1
After five years	1.2	-	1.0	-
Total	**1.3**	**2.1**	**1.0**	**2.1**

18. Contingent liabilities

The banking arrangements of the company operate on a pooled basis with other Group companies and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Limited, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited at 31 March 2013:

	Nominal £m	Coupon %	Maturity	Liability at 31 March 2013 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.8	5.375%	2023	4.1
Yorkshire Water Services Finance Limited	7.4	5.500%	2027	6.3
Yorkshire Water Services Finance Limited	0.2	6.625%	2031	0.7
Yorkshire Water Services Finance Limited	200.0	5.500%	2037	195.0
Yorkshire Water Services Odsal Finance Limited	29.9	6.588%	2023	29.9
Yorkshire Water Services Odsal Finance Limited	180.8	6.588%	2023	180.8
Yorkshire Water Services Odsal Finance Limited	135.5	6.454%	2027	135.5
Yorkshire Water Services Odsal Finance Limited	255.0	6.601%	2031	255.0
Yorkshire Water Services Bradford Finance Limited	275.0	6.000%	2019	273.3
Yorkshire Water Services Bradford Finance Limited	200.0	6.375%	2039	198.1
Yorkshire Water Services Bradford Finance Limited	100.0	6.375%	2039	107.6
Yorkshire Water Services Bradford Finance Limited	450.0	6.000%	2025	447.3
Yorkshire Water Services Bradford Finance Limited	18.9	3.180%	2018	18.8
Yorkshire Water Services Bradford Finance Limited	9.4	3.180%	2019	9.4
Yorkshire Water Services Bradford Finance Limited	72.3	3.770%	2021	71.9
Yorkshire Water Services Bradford Finance Limited	25.1	3.770%	2022	25.0
Yorkshire Water Services Bradford Finance Limited	94.3	3.870%	2023	93.8
Yorkshire Water Services Bradford Finance Limited	18.8	3.870%	2024	18.8
Yorkshire Water Services Bradford Finance Limited	47.2	5.070%	2022	46.9
Yorkshire Water Services Bradford Finance Limited	250.0	3.625%	2029	246.7
Total fixed				**2,364.9**
Index linked				
Yorkshire Water Services Finance Limited	0.1	3.048%	2033	(1.1)
Yorkshire Water Services Odsal Finance Limited	127.8	3.306%	2033	143.3
Yorkshire Water Services Finance Limited	65.0	1.823%	2050	77.7
Yorkshire Water Services Finance Limited	125.0	1.462%	2051	153.8
Yorkshire Water Services Finance Limited	85.0	1.758%	2054	101.7
Yorkshire Water Services Finance Limited	125.0	1.460%	2056	153.7
Yorkshire Water Services Finance Limited	100.0	1.709%	2058	119.5
Yorkshire Water Services Bradford Finance Limited	175.0	2.718%	2039	203.4
Yorkshire Water Services Bradford Finance Limited	85.0	2.718%	2039	111.1
Yorkshire Water Services Bradford Finance Limited	50.0	2.160%	2041	51.4
Yorkshire Water Services Bradford Finance Limited	50.0	1.803%	2042	51.0
Total index linked				**1,165.5**

Indexed linked debt is charged at a margin to six month LIBOR. The margins are as noted above.

19. Pension commitments

The company sponsors a UK pension scheme, the Kelda Group Pension Plan (KGPP). The KGPP has a number of benefit categories providing benefits on a defined benefit basis and one category providing benefits on a defined contribution basis.

Contributions during the year ended 31 March 2013 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The company contributed at 23.6% (2012: 23.6%) of members' pensionable pay during the accounting year in respect of the majority of members.

The most recent finalised actuarial valuation of the KGPP was carried out as at 31 March 2010 when the market value of assets was £838.2m. The company participates in the Group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other subsidiary companies of Kelda Holdings Limited. The company is unable to identify its share of the underlying assets and liabilities of the KGPP as the scheme's members are not unitised by company. The company therefore accounts for pension costs on a contribution basis.

The company's total pension charge for the year was £28.5m (2012: £27.5m). At 31 March 2013, the company had outstanding contributions of £1.1m (2012: £1.2m). An accrual for these outstanding contributions has been included in the company's financial statements.

A summary of scheme position as disclosed in the Kelda Eurobond Co Limited financial statements as at 31 March 2013 is as follows:

	2013		2012	
	Market value £m	Expected long term rate of return %	Market value £m	Expected long term rate of return %
Fair value of scheme assets				
Equities	438.4	n/a	539.2	6.2
Bonds	400.0	n/a	279.6	4.2
Property	76.3	n/a	78.8	6.2
Other	106.2	n/a	6.4	3.5
Total value of assets	1,020.9		904.0	
Present value of scheme liabilities	(1,179.3)		(1,003.7)	
Net pension liability	**(158.4)**		**(99.7)**	

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Human Resource Consulting, on the basis of annual valuations using the projected unit credit method and use the following assumptions:

	2013	2012
Inflation	3.3%	3.2%
Rate of increase in salaries	4.3%	4.2%
Rate of increase to pensions in payment and deferred pensions	3.3%	3.2%
Discount rate for scheme liabilities	4.4%	5.1%
Life expectancy of male pensioner aged 60 (in years)	26.7	26.6
Projected life expectancy at age 60 for male aged 40 (in years)	28.7	28.7

20. Ultimate parent undertaking

The company's immediate parent company is Yorkshire Water Services Holdings Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey but wholly and exclusively registered for tax in the UK.

Kelda Finance (No.1) Limited, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate these financial statements. Kelda Holdings Limited, a company registered in Jersey, is the largest 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.

21. Related party transactions

The company is exempt under the terms of FRS 8 "Related party transactions" from disclosing related party transactions with entities that are part of the Kelda Holdings Limited group.

During the year there were no transactions or outstanding balances with other related parties.

22. Segmental information

For statutory purposes, the directors consider there to be only one business segment, being the provision of water and sewerage services.

23. Share-based payments

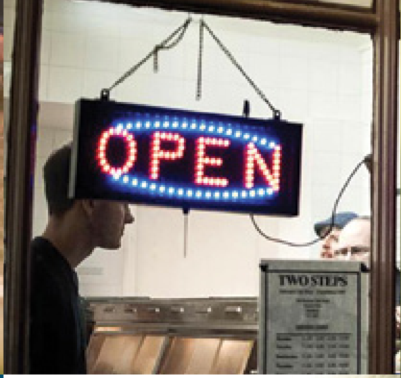
Share options

In prior years the ultimate parent company, Kelda Group Limited (formerly plc), operated a savings related share option scheme under which options were granted to employees and provided for at an exercise price equal to the daily average market price on the date of grant less 20%. The options vested if the employee remained in service for the full duration of the options scheme (either 3 or 5 years).

In 2008, 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 of three or five years from grant date with members choosing whether to continue to contribute.

	2013		2012	
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at the beginning of the year	6,044	7.41	99,161	6.99
Lapsed during the year	-	-	(1,087)	6.64
Exercised during the year	(6,044)	7.41	(92,030)	6.95
Outstanding at the end of the year	-	-	**6,044**	**7.41**
Of which exercisable at the end of the year	-	-	**6,044**	**7.41**

The weighted average share price at the date of exercise for share options exercised during the year was £10.90 (2012: £10.90). There are no options outstanding at 31 March 2013.

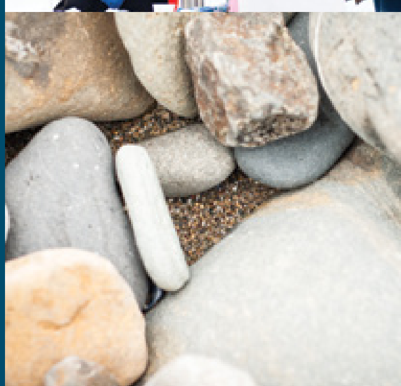


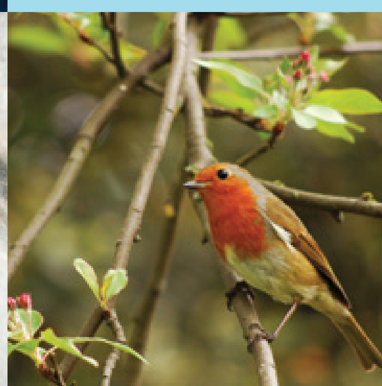
The world's average temperature could rise by 1.5°C by 2050

1 million more people are expected to be living in Yorkshire in the next 25 years

By 2036 we expect to be serving an extra 700,000 households

Sea levels could be 17cm higher in 2036





Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 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 company and of the profit or loss of the company 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdiction.

Independent Auditors' report to the members of Yorkshire Water Services Limited

We have audited the financial statements of Yorkshire Water Services Limited for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities Statement set out on page 75 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended;
- 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 financial statements are prepared is consistent with the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Leeds

5 July 2013

Regulatory Accounting Information 2013

Contents

Historical Cost Information

Current Cost Information

Explanatory note

Pages 77 to 98 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Water Services Regulation Authority (Ofwat).

Historical Cost Information

Profit & Loss Account

For the year ended 31 March 2013

	2013			2012		
	Appointed £m	Non-appointed £m	Total	Appointed £m	Non-appointed £m	Total £m
Turnover	927.0	9.2	936.2	885.0	8.6	893.6
Operating costs	(367.0)	(7.4)	(374.4)	(364.6)	(7.2)	(371.8)
Infrastructure renewals charge	(64.3)	-	(64.3)	(61.3)	-	(61.3)
Historical cost depreciation	(170.2)	-	(170.2)	(161.1)	-	(161.1)
Operating income	1.8	-	1.8	1.5	-	1.5
Operating profit	**327.3**	**1.8**	**329.1**	**299.5**	**1.4**	**300.9**
Other income	2.4	-	2.4	2.4	-	2.4
Net interest	(145.3)	-	(145.3)	(234.8)	-	(234.8)
Profit on ordinary activities before taxation	**184.4**	**1.8**	**186.2**	**67.1**	**1.4**	**68.5**
Taxation - current	4.3	(0.4)	3.9	19.3	(0.4)	18.9
Taxation - deferred	58.4	-	58.4	(9.7)	-	(9.7)
Profit on ordinary activities after taxation	**247.1**	**1.4**	**248.5**	**76.7**	**1.0**	**77.7**
Dividends	(256.6)	-	(256.6)	(63.4)	-	(63.4)
(Retained loss) / Retained profit for the year	**(9.5)**	**1.4**	**(8.1)**	**13.3**	**1.0**	**14.3**

The accounting policies set out on page 55 of the statutory financial statements of Yorkshire Water Services Limited (Yorkshire Water) apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets and the investment in The York Waterworks Limited.

There is no material difference between the profit before tax and the profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the re-valuation of certain tangible fixed assets.

Statement of Total Recognised Gains and Losses

For the Year Ended 31 March 2013

There are no recognised gains or losses other than those included in the profit and loss account.

Balance sheet

As at 31 March 2013

	2013			2012		
	Appointed £m	Non-appointed £m	Total £m	Appointed £m	Non-appointed £m	Total £m
Fixed assets						
Tangible assets	6,271.8	3.4	6,275.2	6,134.1	3.7	6,137.8
Investment - loan to a Group company	1,281.3	-	1,281.3	1,289.4	-	1,289.4
Investment - other	5.7	-	5.7	6.7	-	6.7
Total fixed assets	**7,558.8**	**3.4**	**7,562.2**	**7,430.2**	**3.7**	**7,433.9**
Infrastructure renewals prepayment	4.4	-	4.4	6.1	-	6.1
Other current assets	202.8	8.2	211.0	189.3	7.3	196.6
Creditors: amounts falling due within one year						
Borrowings	(53.8)	-	(53.8)	(55.7)	-	(55.7)
Other creditors	(314.1)	(0.2)	(314.3)	(316.1)	(0.7)	(316.8)
Total	**(367.9)**	**(0.2)**	**(368.1)**	**(371.8)**	**(0.7)**	**(372.5)**
Net current (liabilities)/assets	(160.7)	8.0	(152.7)	(176.4)	6.6	(169.8)
Total assets less current liabilities	7,398.1	11.4	7,409.5	7,253.8	10.3	7,264.1
Creditors: amounts falling due after more than 1 year						
Borrowings	(4,410.9)	-	(4,410.9)	(4,120.7)	-	(4,120.7)
Other creditors	(50.9)	-	(50.9)	(57.5)	-	(57.5)
Total	**(4,461.8)**	**-**	**(4,461.8)**	**(4,178.2)**	**-**	**(4,178.2)**
Provisions for liabilities and charges	(438.1)	(3.0)	(441.1)	(567.4)	(3.3)	(570.7)
Preference share capital	-	-	-	-	-	-
Net Assets employed	**2,498.2**	**8.4**	**2,506.6**	**2,508.2**	**7.0**	**2,515.2**
Capital and reserves	**2,498.2**	**8.4**	**2,506.6**	**2,508.2**	**7.0**	**2,515.2**

The regulatory financial statements on pages 77 to 98 were approved by the board of directors on 3 July 2013 and signed on their behalf by:

Richard Flint
Chief Executive Officer

Reconciliation between statutory accounts and regulatory accounts

For the year ended 31 March 2013

	Statutory UK GAAP £m	Regulatory £m	
Profit and loss			
Turnover	936.2	936.2	No difference
Operating profit	331.5	329.1	£2.4m of income from asset sales is included within operating profit in the statutory accounts.
Balance sheet			
Tangible fixed assets	6,279.6	6,275.2	The difference of £4.4m is attributable to the infrastructure renewals accrual which is excluded from the fixed asset net book value and shown separately within the regulatory accounts in accordance with Regulatory Accounting Guideline 3.06.

Current Cost Information

Current Cost Profit and Loss Account

For the year ended 31 March 2013

	2013			2012		
	Water £m	Sewerage £m	Total £m	Water £m	Sewerage £m	Total £m
Turnover						
Unmeasured - household	215.2	250.8	**466.0**	207.5	242.8	450.3
Unmeasured - non-household	1.4	2.5	**3.9**	-	-	-
Measured - household	110.5	131.5	**242.0**	179.8	185.5	365.3
Measured - non-household	76.6	68.6	**145.2**	-	-	-
Trade effluent	-	8.9	**8.9**	-	8.3	8.3
Bulk supplies	0.1	-	**0.1**	0.1	-	0.1
Other third party services (incl non-potable water)	0.1	0.7	**0.8**	0.1	0.7	0.8
Other sources	30.5	29.6	**60.1**	32.0	28.2	60.2
Total turnover	**434.4**	**492.6**	**927.0**	**419.5**	**465.5**	**885.0**
Current cost operating costs – wholesale (see note 5)	(272.4)	(331.8)	**(604.2)**	(277.9)	(286.2)	(564.1)
Current cost operating costs –retail (see note 5)	(29.6)	(33.5)	**(63.1)**	(36.5)	(40.4)	(76.9)
Operating income / (expense)	1.0	0.7	**1.7**	(7.0)	-	(7.0)
Working capital adjustment	1.1	1.2	**2.3**	(2.5)	4.9	2.4
Current cost operating profit	**134.5**	**129.2**	**263.7**	**95.6**	**143.8**	**239.4**
Other income			**2.4**			2.4
Net interest			**(145.3)**			(234.8)
Financing adjustment			**18.0**			24.8
Current cost profit before taxation			**138.8**			**31.8**
Net revenue movement out of tariff basket	(0.4)	0.7	**0.3**	(0.2)	(0.6)	(0.8)
Back-billing amount identified	1.5	1.3	**2.8**	1.2	0.9	2.1

Current Cost Cash Flow Statement for the appointed business

For the year ended 31 March 2013

	2013 £m	2012 £m
Current cost operating profit	263.7	239.4
Working capital adjustment	(2.3)	(2.4)
Movement in working capital	18.4	5.5
Receipts from other income	2.4	2.4
Current cost depreciation	237.1	216.1
Current cost profit on sale of fixed assets	(1.8)	7.0
Infrastructure renewals charge	64.3	61.4
Movement in provisions	(0.1)	(2.3)
Net cash flow from operating activities	**581.7**	**527.1**
Returns on investments and servicing of finance	(135.5)	(151.9)
Tax received/(paid)	2.7	(2.9)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(338.5)	(330.4)
Receipt of grants and contributions	12.0	11.7
Infrastructure renewals expenditure	(62.7)	(87.8)
Disposal of fixed assets	2.3	1.9
Movement on long term loans to Group companies	204.4	130.8
Net cash outflow from investing activities	**(182.5)**	**(273.8)**
Equity dividends paid	(256.7)	(63.4)
Net cashflow from management of liquid resources	3.7	2.8
Net cash inflow/ before financing	**13.4**	**37.9**
Net cash inflow/(outflow) from financing	10.0	(80.3)
Increase/(decrease) in cash	**23.4**	**(42.4)**

1. Accounting policies

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Limited (Yorkshire Water) in accordance with guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory financial statements, except as set out below.

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the appointed business are separately allocated and identified as "non-appointed". Indirect costs related to non-appointed activities are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Infrastructure assets

As noted on page 77, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals is shown separately in the current cost balance sheet.

Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

The ownership of, and responsibility for, certain private sewers in Yorkshire Water's region were transferred to the company on 1 October 2011. To meet the requirements of RAG1.04 these assets have been included in fixed asset additions at their modern equivalent asset value (MEA) with a corresponding credit to third party contributions. The value included is based on data from a report completed by UK Water Industry Research (UKWIR) in 2007 which estimated the length of private sewers, and the number of chambers and other associated assets, to be adopted in each region in England and Wales as part of the private sewers transfer. UKWIR used average lengths of each type of drain or sewer, with different lengths applied depending on the age and type of property. To calculate the MEA cost at October 2011, the transferred sewers were valued at current construction unit costs for similar replacement activities on public sewers.

The modern equivalent asset values (MEA) arising from the last Periodic Review (PR09) are incorporated in the 2012/13 Regulatory Accounting Information.

The revaluation of historical cost fixed assets does not affect the current cost accounting information.

– Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using RPI.

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

– Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

– Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

– Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Instrument of Appointment.

– Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as deferred income.

Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

– Working capital adjustment

This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.

– Financing adjustment

This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and those already linked to RPI.

Investment in York WaterWorks

The intangible assets accounting policy on page 56 and note 6 of the statutory financial statements of Yorkshire Water outline the treatment of the transfer of the trade and net assets of The York WaterWorks Limited (YWW) to Yorkshire Water in 2000.

Revenue recognition

Turnover represents the fair value of income receivable from the regulated activities of the business for water and sewerage services in the year exclusive of value added tax. Turnover is recognised in the period in which it is earned in accordance with FRS5 "Reporting the substance of transactions".

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. The measured income accrual is recognised within turnover.

Where an invoice has been raised in advance this bill value is not recognised until it is due. If a customer payment is made but the service has not been provided in the year this will be treated as a payment in advance and recognised in creditors.

Charges on income arising from court and solicitors' fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover.

It is company policy to regularly comment on revenue movements through the financial and operating reporting processes.

There is no difference between statutory and regulatory policy on revenue recognition. There is no turnover recognition for unoccupied properties. Yorkshire Water do not bill known unoccupied properties. If a bill is raised and it is subsequently identified that the property is unoccupied then the bill is cancelled and removed from revenue.

Water and sewerage charges fall into the following three categories:

- Charges which are payable in full.
- Charges which are payable in part.
- Not chargeable (void properties).

The circumstances in which each of the above applies are set out below.

– Charges payable in full

Charges are payable in full in the following circumstances:

- Occupied and benefiting from supply; and
- Unoccupied and benefiting from supply, these include properties where significant renovation, redecoration or building work is being undertaken and where there is any known regular use of water.

Exceptions to this, where water (and sewerage) charges are not payable, include where the customer is in a care home, long-term hospitalisation, in prison, overseas long term or in the event of the death of the customer.

– Charges payable in part

The following charges only are payable in certain circumstances:

- Metered standing charges, payable on unoccupied, metered properties which are still connected.
- Surface water charge.
- Sewerage unmetered tariff, payable on unmetered, occupied properties where the water supply is disconnected but sewerage connection is still provided.
- Surface water and highway drainage, payable on occupied properties where the water supply is disconnected.

– Not chargeable

Properties which are unoccupied, not benefitting from supply or disconnected are not chargeable for water and sewerage therefore no billing is raised and no turnover recognised in respect of these properties.

Occupied properties

The occupier is any person who owns a premises or who has agreed with us to pay water and sewerage services in respect of the premises. The property management process is followed to identify whether the property is occupied or not and if occupied to identify the chargeable person and raise a bill.

The property management process may comprise customer contacts, mailings, meter readings, residency checks using credit reference agencies and physical inspections.

Yorkshire Water adopts a risk based approach to its voids in order to get the right balance between early pro-active work on high risk areas.

Unoccupied properties

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- a property is not benefitting from a water supply;
- a new property has been connected but is empty and not benefitting from supply;
- the company has been informed that the customer has left the property, it is not benefitting from supply and not expected to be reoccupied immediately;
- it has been disconnected following a customer request,
- the identity of the customer is unknown; or
- the company has been informed that the customer is in a care home, long-term hospitalisation, prison or overseas long-term.

If the property management process confirms that the property is unoccupied, the property will be declared void.

New properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover.

If the developer is no longer responsible for the property and no new occupier has been identified the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Dividend policy

The dividend policy is described on page 34 within the Director's report.

Capitalisation policy

Costs are capitalised following the company's capitalisation policy which states that capital expenditure includes:

a) Acquisition of land and buildings;

b) Expenditure of more than £3,000 on the construction, provision, purchase, replacement or improvement of other fixed assets or their major renewal. Where individual items each costing less than £3,000 are part of an approved project falling within this definition then the whole of the expenditure is to be capitalised e.g. Initial furniture and equipment for newly constructed premises; and

c) Salaries, salaries oncosts and associated costs of staff employed on capital works.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Any other costs are treated as operating expenditure.

Directly attributable costs are:

- The labour costs of Group employees arising directly from construction or acquisition of the tangible fixed asset; and
- The incremental costs to the Group that would have been avoided only if the tangible fixed asset had not been constructed or acquired.

Administration and other general overhead costs are excluded from the cost of a tangible fixed asset.

Bad debt

The write off of bad debts is done in accordance with the company's policy and only debts that are irrecoverable are written off. It is the company's policy to write off outstanding balances which may result from the following situations:-

- The debt may be uneconomical to collect;
- The proof of liability cannot be established;
- The debtor cannot be traced and write off is the only recourse left;
- The amount is irrecoverable; and
- Domestic Insolvency.

There has been no change in this policy between years.

The unmeasured provision (direct billing) is calculated using information based on the age of debts. Percentages are applied to each year's arrears, based on unmeasured tracked debts, to arrive at the provision figure.

The measured provision for domestic customers is calculated using information based on the age of debts. Percentages are applied to each year's arrears, based on measured tracked debts, to arrive at the provision figure.

The provision for Local Authority debt is based on the potential bad debt should the contract terminate and the sundry charges provision on a specific review of outstanding accounts and a percentage applied to greater than 1 year debt. The trade effluent provision calculation is based on 100% of debt over 26 weeks old and 25% of debt between 14 -26 weeks old and a specific review of outstanding accounts.

There has been no change in this policy between years.

2. Appointed and non-appointed business

The historical cost accounting information shows separate figures for appointed and non-appointed business.

The appointed business is defined to be the regulated activities of the appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The non-appointed business encompasses those activities for which Yorkshire Water is not a monopoly supplier or the activity involves the optional use of an asset owned by the appointed business.

3. Disclosure of transactions with associates

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the appointed business are separately allocated and identified as 'non-appointed'. Indirect costs, relating to non-appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Borrowings or sums lent

– Kelda Holdco Limited

A long term loan was advanced by Yorkshire Water to Kelda Holdco Limited during 2008/09 to reflect the market value of certain index linked swaps novated from Kelda Holdco Limited to Yorkshire Water at that point in time. Balances at 1 April 2012 and 31 March 2013 were £280.4m and £272.3m respectively. Interest is payable at current market rates.

In addition, Yorkshire Water have made further loan advances to Kelda Holdco Limited to enable the refinancing of debt in Kelda Holdco Limited. The balance of these loans at 31 March 2013 was £1,009.0m (2012: £1,009m). Interest is payable on these loans at current market rates.

– Yorkshire Water Services Finance Limited

On 17 April 2000, £150m was lent at a fixed rate of 6.625% repayable in 2031, and on 16 November 2001 a further £90m was lent at 6.625% repayable in 2031. On 3 July 2008 Yorkshire Water Services Finance Limited (YWSF), a subsidiary of the company, became principal debtor under the bonds which are unconditionally and irrevocably guaranteed by Yorkshire Water. As a result, the loans from Kelda Group Limited were transferred to YWSF.

On 24 July 2009, Yorkshire Water implemented a whole business securitisation (WBS). Post the implementation of the WBS, Yorkshire Water Services Finance Limited will remain the issuer in respect of the existing bonds on-lent to Yorkshire Water, but will not issue further bonds in the future.

The table below sets out the amounts outstanding on loans from YWSF:

Issue Date	Nominal £m	Coupon	Maturity	Liability at 31/03/2013 £m
Fixed Rate				
07/04/2000	240.0	6.625%	2031	240.5
21/02/2003	200.0	5.375%	2023	197.3
29/05/2007	200.0	5.500%	2037	195.0
29/05/2007	150.0	5.500%	2027	149.0
Index Linked				
21/02/2003	100.0	3.048%	2033	136.6
27/11/2006	125.0	1.462%	2051	153.8
27/11/2006	125.0	1.460%	2056	153.7
01/06/2007	85.0	1.758%	2054	101.7
11/06/2007	100.0	1.709%	2058	119.5
11/06/2007	65.0	1.823%	2050	77.7
Total loan with YWSFL	**1,390.0**			**1,524.8**

– Yorkshire Water Services Odsal Finance Limited (YWSOFL)

As stated above, during the year ended 31 March 2010 Yorkshire Water implemented a WBS. Part of this process involved certain bonds initially issued by YWSFL being exchanged for new bonds issued by a fellow subsidiary YWSOFL. These exchange bonds were issued on different terms to the existing bonds.

In order to fund the change in coupon payable and differences in par values post the bond exchange, Yorkshire Water entered into a series of loans with YWSOFL:

- Deep discounting loans structured such that their redemption value will be discharged by the difference between the par value paid by YWSFL in respect of the old bonds and the par value paid by the YWSOFL in respect of the new bonds; and
- Amortising loans structured such that the regular payments of principal and interest equate to the difference between the interest received from YWSFL on the old bonds and the amount payable by the YWSOFL on the new bonds.

The balances outstanding as at 31 March 2013, regarding these deep discounting and amortising loans, are shown in the table below

	£m
2010 to 2023 Exchange Bonds	30.1
2023 to 2023 Exchange Bonds	4.4
2027 to 2027 Exchange Bonds	5.7
2031 to 2031 Exchange Bonds	15.5
2033 to 2033 Exchange Bonds	8.2
Total	63.9

– Yorkshire Water Services Bradford Finance Limited (YWSBFL)
During 2012/13 YWSBFL raised £300m of new debt, this was a combination of fixed rate and indexed linked debt as shown by the table below. The proceeds (net of costs and expenses where applicable) were on-lent by YWSBFL to Yorkshire Water. The amounts outstanding as at 31 March 2013 are shown in the table below.

Issue Date	Nominal £m	Nominal $m	Coupon	Maturity	Liability at 31/03/2013 £m
Fixed Rate					
24/07/2009	275.0		6.000%	2019	273.5
24/07/2009	200.0		6.375%	2039	198.2
23/04/2010	100.0		6.375%	2039	107.3
23/04/2010	450.0		6.000%	2017	447.6
13/12/2011	18.9	30.0	3.180%	2018	18.8
05/01/2012	9.4	15.0	3.180%	2019	9.3
13/12/2011	72.3	115.0	3.770%	2021	71.9
05/01/2012	25.1	40.0	3.770%	2022	25.0
13/12/2011	94.3	150.0	3.870%	2023	93.8
05/01/2012	18.8	30.0	3.870%	2024	18.7
05/01/2012	47.2	75.0	5.070%	2022	46.9
Index Linked					
24/07/2009	175.0		2.718%	2039	203.4
23/04/2010	85.0		2.718%	2039	110.7
13/12/2011	50.0		2.160%	2041	51.4
22/05/2012	50.0		1.803%	2042	51.0
Total Loan with YWSBFL					**1,727.5**

No other material sums were lent to or borrowed from other associated companies.

Dividends paid to associated undertakings
Amounts paid to the parent company and the underlying dividend policy, are disclosed in the Directors' Report on page 34 of the statutory financial statements of Yorkshire Water.

Guarantees/securities
Until August 2008, the bankers for the Kelda Group Limited and subsidiaries current accounts provided pooling arrangements for all accounts whereby debit and credit balances were pooled with interest charged on the net group balance. Arrangements changed on 11 August 2008 and now Yorkshire Water has pooling arrangements only with YWSF and Kelda Group Limited. Debit and credit balances are pooled with interest charged on the net group balance.

This facility is subject to provision of cross guarantees by each company within each pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank. This is provided that the aggregate of the cleared debit balances, less the aggregate of the cleared credit balances, i.e. the net amount must not exceed £10m. In addition, the aggregate of the cleared debit balances on the Group accounts must not exceed £15m.

Transfer of assets and liabilities
During the course of the year land and buildings were sold to Group companies at market value. Total sale proceeds were £1.9m (2012: £1.4m).

Supply of service
Details of all transactions between the appointee and its associated companies during the year must be disclosed and if any single transaction exceeds 0.5% of turnover of the appointed business (£4.6m for 2013) it should not be aggregated.

Services received by regulated business	Associate Company	Turnover of Associate £m	Terms of Supply	Value £m
Corporate charges	Kelda Group Limited	6.3	Cost allocation	4.1
Customer services	Loop Customer Management Limited	25.9	Cost allocation	23.8

Yorkshire Water provides IT, facilities charges, legal and a variety of common services to companies within the Group. These services total £2.8m and are provided at cost. The Directors declare that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

4. Link between directors' pay and standards of performance

The link between directors' pay and standards of performance are discussed in the Directors' Remuneration Report on pages 44 to 52.

5. Analysis of operating costs

For the year ended 31 March 2013

	Water – wholesale				Water sub total £m
	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	
Operating expenditure					
Power	2.4	3.7	4.8	10.0	**20.9**
Income treated as negative expenditure	-	-	(0.2)	(0.1)	**(0.3)**
Service charges	5.4	-	-	-	**5.4**
Bulk supply imports	3.8	-	-	-	**3.8**
Other operating expenditure	6.1	2.5	26.7	50.8	**86.1**
Local authority rates	0.8	7.0	9.0	17.7	**34.5**
Total operating expenditure excluding third party services	**18.5**	**13.2**	**40.3**	**78.4**	**150.4**
Capital maintenance					
Infrastructure renewals charge	-	3.0	-	41.2	**44.2**
Current cost depreciation	5.2	4.7	24.4	42.7	**77.0**
Amortisation of deferred credits	(1.2)	-	-	-	**(1.2)**
Amortisation of intangible assets	0.1	0.1	-	0.7	**0.9**
Total capital maintenance excluding third party services	**4.1**	**7.8**	**24.4**	**84.6**	**120.9**
Third party services					
Operating expenditure	-	-	-	1.1	**1.1**
Total operating costs	**22.6**	**21.0**	**64.7**	**164.1**	**272.4**

5. Analysis of operating costs (continued)

For the year ended 31 March 2013

	Sewerage – wholesale				Sewerage sub total £m	Total water and sewerage £m
	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m		
Operating expenditure						
Power	3.2	19.3	7.3	-	**29.8**	**50.7**
Income treated as negative expenditure	-	(0.5)	(0.5)	-	**(1.0)**	**(1.3)**
Service charges	1.1	3.3	-	0.2	**4.6**	**10.0**
Bulk supply imports	-	-	-	-	**-**	**3.8**
Other operating expenditure	31.1	34.2	32.7	5.1	**103.1**	**189.2**
Local authority rates	0.1	17.0	3.0	-	**20.1**	**54.6**
Total operating expenditure excluding third party services	**35.5**	**73.3**	**42.5**	**5.3**	**156.6**	**307.0**
Capital maintenance						
Infrastructure renewals charge	20.1	-	-	-	**20.1**	**64.3**
Current cost depreciation	26.8	102.3	26.1	1.1	**156.3**	**233.3**
Amortisation of deferred credits	-	(1.2)	-	-	**(1.2)**	**(2.4)**
Amortisation of intangible assets	-	-	-	-	**-**	**0.9**
Total capital maintenance excluding third party services	**46.9**	**101.1**	**26.1**	**1.1**	**175.2**	**296.1**
Third party services						
Operating expenditure	-	-	-	-	**-**	**1.1**
Total operating costs	**82.4**	**174.4**	**68.6**	**6.4**	**331.8**	**604.2**

5. Analysis of operating costs (continued)

For the year ended 31 March 2013

	Retail		Total £m
	Household £m	Non-household £m	
Operating expenditure			
Customer Services	20.4	2.8	**23.2**
Debt management	3.9	1.0	**4.9**
Doubtful debts	14.6	1.7	**16.3**
Meter reading	1.4	0.2	**1.6**
Services to developers	-	1.9	**1.9**
Other operating expenditure	8.3	1.5	**9.8**
Local authority rates	0.1	-	**0.1**
Total operating expenditure	**48.7**	**9.1**	**57.8**
Capital maintenance			
Current cost depreciation	4.6	0.7	5.3
Total capital maintenance	**4.6**	**0.7**	**5.3**
Total operating costs	**53.3**	**9.8**	**63.1**
Debt Written off	13.5	1.6	15.1

The methodology used to allocate operating costs between service areas is published on the company's website at **yorkshirewater.com/about-us/our-performance/reports-and-accounts.aspx**. This document also contains a commentary explaining the material operating cost movements between the current year and the prior year.

6. Current cost analysis of fixed assets

As at 31 March 2013

	Water				
	Resources £m	Raw water distribution £m	Treatment £m	Treated water distribution £m	Water sub total £m
Non infrastructure assets Gross replacement cost					
At 1 April 2012	51.5	225.4	1,037.0	1,646.3	**2,960.2**
Re-classification adjustment	268.2	(2.8)	(80.4)	16.6	**201.6**
RPI adjustment	1.7	7.4	34.0	54.0	**97.1**
Disposals	(2.0)	(0.3)	(4.3)	(13.6)	**(20.2)**
Additions	5.6	1.4	30.0	47.2	**84.2**
At 31 March 2013	**325.0**	**231.1**	**1,016.3**	**1,750.5**	**3,322.9**
Depreciation					
At 1 April 2012	7.9	56.0	712.9	910.0	**1,686.8**
Re-classification adjustment	57.0	2.9	(54.0)	22.5	**28.4**
RPI adjustment	0.3	1.8	23.4	29.8	**55.3**
Disposals	(1.7)	(0.3)	(4.3)	(13.4)	**(19.7)**
Charge for year	5.2	4.7	24.4	42.7	**77.0**
At 31 March 2013	**68.7**	**65.1**	**702.4**	**991.6**	**1,827.8**
Net book amount at 31 March 2013	**256.3**	**166.0**	**313.9**	**758.9**	**1,495.1**
Net book amount at 1 April 2012	**43.6**	**169.4**	**324.1**	**736.3**	**1,273.4**
Infrastructure assets Gross replacement cost					
At 1 April 2012	3,868.1	865.8	5.6	13,026.6	**17,766.1**
Re-classification adjustment	0.4	(0.2)	(0.1)	(0.1)	**-**
RPI adjustment	126.9	28.4	0.2	427.3	**582.8**
Additions	-	-	-	9.2	**9.2**
At 31 March 2013	**3,995.4**	**894.0**	**5.7**	**13,463.0**	**18,358.1**

6. Current cost analysis of fixed assets by asset type (continued)

As at 31 March 2013

	Sewerage					
	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub total £m	Water and sewerage £m
Non infrastructure assets Gross replacement cost						
At 1 April 2012	973.9	3,554.0	544.5	236.9	5,309.3	8,259.5
Re-classification adjustment	(26.7)	(0.1)	182.1	(226.8)	(71.5)	130.1
RPI adjustment	31.9	116.6	17.9	7.8	174.2	271.3
Disposals	(3.9)	(37.1)	(4.3)	(0.1)	(45.4)	(65.6)
Additions	30.7	94.8	52.3	1.3	179.1	263.3
At 31 March 2013	**1,005.9**	**3,728.2**	**792.5**	**19.1**	**5,545.7**	**8,858.6**
Depreciation						
At 1 April 2012	599.8	2,171.6	343.6	182.7	3,297.7	4,984.5
Re-classification adjustment	17.1	3.4	165.0	(170.9)	14.6	43.0
RPI adjustment	19.7	71.2	11.3	6.0	108.2	163.5
Disposals	(3.9)	(37.0)	(4.3)	(0.1)	(45.3)	(65.0)
Charge for year	26.8	102.3	26.1	1.1	156.3	233.3
At 31 March 2013	**659.5**	**2,311.5**	**541.7**	**18.8**	**3,531.5**	**5,359.3**
Net book amount at 31 March 2013	**346.4**	**1,416.7**	**250.8**	**0.3**	**2,014.2**	**3,509.3**
Net book amount at 1 April 2012	**374.1**	**1,372.4**	**200.9**	**54.2**	**2,011.6**	**3,275.0**
Infrastructure assets Gross replacement cost						
At 1 April 2012	26,644.6	4.3	1.2	0.1	26,650.2	44,416.3
Re-classification adjustment	(0.8)	-	0.8	-	-	-
RPI adjustment	873.9	0.1	-	-	874.0	1,456.8
Disposals	-	-	-	-	-	-
Additions	51.5	1.7	-	-	53.2	62.4
At 31 March 2013	**27,569.2**	**6.1**	**2.0**	**0.1**	**27,577.4**	**45,935.5**

6. Current cost analysis of fixed assets by asset type (continued)

As at 31 March 2013

	Retail business		
	Household £m	Non-household £m	Total £m
Non infrastructure assets Gross replacement cost			
At 1 April 2012	195.9	25.9	**221.8**
Reclassification adjustment	(112.1)	(18.0)	**(130.1)**
RPI adjustment	6.4	0.9	**7.3**
Disposals	(1.0)	(0.2)	**(1.2)**
Additions	4.1	0.7	**4.8**
At 31 March 2013	**93.3**	**9.3**	**102.6**
Depreciation			
At 1 April 2012	63.3	8.9	**72.2**
Reclassification adjustment	(37.1)	(5.9)	**(43.0)**
RPI adjustment	2.0	0.3	**2.3**
Disposals	(1.0)	(0.2)	**(1.2)**
Charge for year	4.6	0.7	**5.3**
At 31 March 2013	**31.8**	**3.8**	**35.6**
Net book amount at 31 March 2013	**61.5**	**5.5**	**67.0**
Net book amount at 1 April 2012	**132.6**	**17.0**	**149.6**

The methodology used to allocate fixed assets between service areas is published on the company's website at **yorkshirewater.com/about-us/our-performance/reports-and-accounts.aspx.** The commentary includes information on the reclassification adjustment.

7. Analysis of capital expenditure, grants and land sales

As at 31 March 2013

	2013			2012		
	Gross £m	Grants and contributions £m	Net £m	Gross £m	Grants and contributions £m	Net £m
Capital expenditure - water						
Base						
Infrastructure renewals expenditure	44.9	(3.4)	**41.5**	66.2	(2.1)	64.1
Maintenance non-infrastructure	71.4	-	**71.4**	94.8	-	94.8
Enhancements						
Infrastructure enhancements	9.2	-	**9.2**	19.2	-	19.2
Non-infrastructure enhancements	18.5	-	**18.5**	16.8	-	16.8
Total capital expenditure - water	**144.0**	**(3.4)**	**140.6**	**197.0**	**(2.1)**	**194.9**
Grants and contributions - water						
Developer contributions		(0.3)	**(0.3)**		(0.8)	(0.8)
Infrastructure charge receipts - new connections		(2.9)	**(2.9)**		(2.4)	(2.4)
Other contributions		(0.3)	**(0.3)**		(0.2)	(0.2)
Total grants and contributions - water		**(3.5)**	**(3.5)**		**(3.4)**	**(3.4)**
Capital expenditure - sewerage						
Base						
Infrastructure renewals expenditure	22.5	(1.3)	**21.2**	22.0	(1.8)	20.2
Maintenance non-infrastructure	100.8	-	**100.8**	103.2	-	103.2
Enhancements						
Infrastructure enhancements	53.2	-	**53.2**	44.1	-	44.1
Non-infrastructure enhancements	77.5	-	**77.5**	49.7	-	49.7
Total capital expenditure - sewerage	**254.0**	**(1.3)**	**252.7**	**219.0**	**(1.8)**	**217.2**
Grants and contributions - sewerage						
Developer contributions		(1.1)	**(1.1)**		(0.5)	(0.5)
Infrastructure charge receipts - new connections		(2.8)	**(2.8)**		(3.8)	(3.8)
Other contributions		(0.2)	**(0.2)**		(0.1)	(0.1)
Total grants and contributions – sewerage		**(4.1)**	**(4.1)**		**(4.4)**	**(4.4)**
Total capital expenditure – water and sewerage	**398.0**	**(12.3)**	**385.7**	**416.0**	**(11.7)**	**404.3**
Land sales - proceeds from disposals of protected land			**1.1**			**1.4**

8. Analysis of working capital

		2013 £m	2012 £m
Stocks		**1.1**	1.2
Trade debtors	– measured household	**28.4**	26.9
	– unmeasured household	**35.2**	32.8
	– measured non-household	**13.7**	14.1
	– unmeasured non-household	**0.3**	0.3
	– other trade debtors	**4.0**	4.8
Measured income accrual		**52.9**	48.3
Prepayments and other debtors		**5.5**	6.5
Trade creditors		**(58.3)**	(53.4)
Deferred income – customer advance receipts		**(50.6)**	(48.6)
Capital creditors		**(99.7)**	(103.0)
Accruals and other creditors		**(9.1)**	(3.1)
Total working capital		**(76.6)**	**(73.2)**
Total revenue outstanding - household		**63.6**	59.7
Total revenue outstanding - non-household		**14.0**	14.4

Movement in total working capital shown above of £3.4m differs to that shown in the cashflow statement on page 81 (£18.4m) due movements in capital and other non-trading debtors and creditors (e.g. VAT debtor movements). The movement in working capital as used in bank covenant calculations is adjusted from that shown in the cashflow statement as follows:

	£m
Working capital and other movements as per regulatory accounts	18.3
Include non-regulated movements in working capital	(1.0)
Exclude non trading debtor/creditor movements	(11.6)
Adjusted movements in working capital	**5.7**

9. Analysis of net debt, gearing and interest costs

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	2,251.6	705.7	1,507.4	4,464.7
Cash				(25.6)
Short term deposits				(6.4)
Amounts owed by group companies				(1,009.0)
Net debt at 31 March 2013				3,423.7
Regulatory Capital Value				5,631.2
Gearing				60.8%
Full year equivalent nominal interest cost	128.02	21.29	137.15	286.47
Full year equivalent cash interest payment	128.02	21.29	62.99	212.30
Indicative weighted average nominal interest rate			5.2%	6.6%
Indicative weighted average cash interest rate			2.4%	4.9%
Weighted average years to maturity	12.9	11.7	33.7	18.2

10. Properties analysis for the year ended

31 March 2013 (unaudited)

	2013		2012	
	Water	Sewerage	Water	Sewerage
Number of properties ('000s)				
Households billed	1,984.0	1,994.5	1,971.9	1,984.9
Non-households billed	126.8	107.5	127.7	108.0
Household voids	106.8	104.8	110.0	106.7
Non-household voids	23.9	23.1	23.8	22.8
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	149.55		149.12	
Measured household	108.63		113.32	
Volume (Ml/d)				
Bulk supply export	0.37		0.27	
Bulk supply import	52.50		50.06	
Distribution input	1,203.08		1,239.73	

Statement of directors' responsibilities

The Directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Act 1991 for:

a) ensuring that proper accounting records are kept by the Appointee as required by paragraph 3 of Condition F of the Instrument and having regard to the terms of any guidelines notified from time to time by Ofwat;

b) preparing on a consistent basis in respect of each financial year accounting statements in agreement with the Appointee's accounting records and in accordance with the requirements of Condition F and any guidelines notified from time to time by Ofwat to the Appointee. So far as reasonably practicable these should have the same content as the annual accounts of the Appointee prepared under the Companies Act 2006 and be prepared in accordance with the formats and the accounting policies and principles which apply to those accounts;

c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued to the Appointee from time to time.

The maintenance and integrity of the Company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdiction.

Disclosure of information to the auditors

As far as each director is aware there is no relevant audit information of which the company's auditors are unaware and each director has taken such 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 company's auditors are aware of the information.

Other Regulatory Declarations

Ring fencing

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

Directors' certificate - condition F

The Directors declare that, in their opinion:

i) the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and

ii) the company will, for at least the next 12 months, have available to it:

a) management resources; and

b) systems of planning and internal control

which are sufficient to enable it to carry out those functions.

In making this declaration, the directors have taken into account:

a) the net worth of the company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2013 and the company's business plan for 2013/14;

b) borrowing facilities which include significant committed undrawn bank facilities;

c) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due;

d) the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners; and

e) the company's employment policies and strategy as described in detail in the Directors' Report on pages 34 and 35 of the statutory financial statements of Yorkshire Water.

The Directors also declare that in their opinion all contracts entered into with any Associated Company, include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

Independent Auditors' Report on the Regulatory Accounting Information

Independent Auditors' report to the Water Services Regulation Authority (the Authority, referred to as the "WSRA") and the Directors of Yorkshire Water Services Limited

We have audited the regulatory accounts of Yorkshire Water Services Limited ("the Company") for the year ended 31 March 2013 on pages 77 to 95 (the "Regulatory Accounts") which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the statutory financial statements and the Regulatory Accounts; and
- the regulatory current cost accounting statements, for the appointed business comprising the current cost profit and loss account, the current cost cash flow statement and the related notes including the Statement of Accounting Policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WRSA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 97, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 Regulatory Accounts. In addition, we read all the financial and non-financial information in the [insert name of document containing the Regulatory Accounts] to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 82 to 84 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2013 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 77 and 78 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 79.

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WRSA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2013 on which we reported on 26 June 2013, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Leeds
5 July 2013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Notes