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KELDA EUROBOND CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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Contents

OUR BUSINESS

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

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

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

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

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

UK Service Operations
Kelda Water Services
Kelda Water Services Limited (KWS) is a major participant in the UK water and waste water contract operations market, with its subsidiaries operating contracts during the year 2013/14 in England, Scotland and Northern Ireland.

Business strategy:

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

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

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

Business strategy:

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

BUSINESS STRATEGY

The Group has a vision – 'taking responsibility for the water environment for good'.

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

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

Our strategic objectives:

To deliver the plan the Group has developed six Strategic Business Objectives (SBOs). These SBOs shape everything the Group does.

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

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

Safe Water – The Group works safely to protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

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

Water efficient regions – The Group ensures water needs are met now and in the future by using water wisely and inspiring others to do the same.

Sustainable resources – The Group is efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

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

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

BUSINESS PERFORMANCE

Yorkshire Water Services Limited (YW)

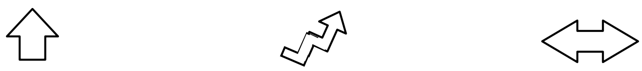
An overview is provided below of YW performance by examining progress towards each of the six SBOs which summarise the Group strategy to achieve its vision of: 'taking responsibility for the water environment for good'.

Reported under each SBO is:

• A table showing performance against the Office of Water Services' (Ofwat) Key Performance Indicators (KPIs) for the water industry. More information on these measures and performance in the Risk and Compliance Statement, available at: www.yorkshirewater.com/reports

• A table showing YW's progress against a suite of annual targets that YW set itself as part of its drive to achieve its vision and go beyond its regulatory duties. Arrows are used to show the trend in annual performance in the context of its long-term goals:

Progression towards long-term goals	Overall trend of progression with annual fluctuation	Stable	Regression from long-term goals



•A commentary on the matters that are material to YW recent performance, future direction, risks and uncertainties.

STRATEGIC BUSINESS OBJECTIVE – TRUSTED COMPANY

The way the Group does business means our products, services and promises are trusted by all our stakeholders, now and in the future.

Measures of our regulatory compliance	**Target**	**Current year**	**Previous year**
Service Incentive Mechanism, SIM (Overall score)	80	82	78
Serviceability – water infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – water non-infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – sewerage infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – sewerage non-infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable

Ofwat define their Key Performance Indicators for the water industry on their website, at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Overall trend**
YW is recognised as leader in customer service by current and future customers.	Launch Phase 1 of new YW website.	Plan to launch website in Autumn 2014	⇧
	Top three position in Ofwat's SIM.	Second in the customer qualitative survey part of SIM and await official confirmation of overall position. YW has made advances in its customer service in practice, and YW continue with its customer service improvement programme.	⇧
YW have fair and transparent policies and procedures in place.	Kelda Group 'Colleague Trust' score of 7 out of 10 in internal colleague survey.	Latest average colleague trust score was 6.5 out of 10 and increasing in recent quarters. Latest score was 0.1 points lower than the start of the year.	⇔
YW is a 'role model' business and seek to be open in everything we do.	Business in the Community (BiTC) Corporate Responsibility Index Gold status requiring a score over 90%.	BiTC have introduced a new grading system. YW achieved 3.5 stars and increased its score to 93%.	⇧
Through its brand, its audiences understand who YW is and what it stands for.	Develop sustainability reporting.	Published sustainability report in December 2013 and YW Annual Report in 2014 includes first step towards 'Integrated Reporting'.	⇧
	The launch of Blueprint internally and externally.	Blueprint launched in 2013.	⇧

Measures of ambition to go beyond regulatory duties (continued)			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Overall trend**
An innovative and continually evolving engagement programme in place with all stakeholders.	Launch of first stakeholder conference.	Stakeholder conference held in July 2013.	⇧
	Stakeholder mapping and development programme in place.	New approach to partnership continues to develop.	⇧
	PR14 acceptability from Customer Forum, key stakeholders and Ofwat.	Strong support received for PR14 plan following biggest ever engagement.	⇧

The arrows show the trend of YW's annual performance in the context of its long-term goals. Further explanation is provided on page 3.

Delivering leading customer service
Customers have benefited from real advances in YW customer service over the last year.

YW's SIM (Service Incentive Mechanism) performance has risen substantially in recent quarters. YW's regulator, Ofwat, developed SIM as a measure of customer service in the water industry. YW is confirmed to have ranked second in the water industry on the customer satisfaction measure of SIM in 2013/14, and first in recent quarters. The customer satisfaction measure is one of several measures within SIM. Overall YW achieved 82 points out of a maximum score of 100. This is up from 78 points last year, and YW is working to ensure continued improvement in 2014/15.

YW continues with its programme of customer service improvements. For example, a new website based on extensive analysis of customer expectation is currently being developed. This will go live in Autumn 2014. The new website will help customers to more easily access the information they want in a format suitable to them. In response to customer demand, the aim is to increase the levels of self-service functionality that the website can offer. The new website will also be used to enhance the quality and format of information provided for customers and stakeholders.

The Water Act 2014 is introducing greater retail competition, enabling all business, charity and public sector customers to switch their water and sewerage supplier. This presents both opportunities and threats to the business and YW is watching developments closely as it continues to develop its position.

Maintaining service today and into the future
YW needs to maintain essential services to its customers whatever the circumstances. YW ensures high levels of service resilience through an array of measures which have worked well through numerous recent extreme events, including the east coast storm surge in December 2013.

Unexpected failure or disruption can cause a significant interruption to services provided to customers and the environment. Catastrophic events can result in injury or loss of life, and significant damage to the environment and assets. This can affect colleague wellbeing, operations and reputation, as well as resulting in additional costs including liability to customers or loss of revenue.

YW manages risks against all hazards through its corporate and operational risk management processes. Extensive emergency plans are in place to enable a fast and effective response to, and recovery from, an asset or service failure event. An Incident Management Framework provides a staged response to ensure the effective allocation of resource to any incident.

To ensure that YW can provide services today and long into the future, over a million pounds a day is invested to maintain and enhance the legacy of assets and infrastructure. This includes over 700 treatment works, thousands of pumping stations and enough pipes to stretch around the world. In 2013/14 YW achieved "stable serviceability" in all four asset categories for the second year running. Serviceability is a measure used by the water industry to demonstrate the effectiveness of asset maintenance. Further details on YW's serviceability performance can be found in YW's Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

Planning for long-term challenges like population growth, climate change and decreasing availability of resources is also in progress. In 2013 YW published a suite of documents about its plans for the future, called Blueprint for Yorkshire. One document examines, and is called, 'the next 25 years'. YW's 'climate change strategy' explains how it is working to ensure it can affordably maintain and enhance services in the changing climate, and cost-effectively reduce its carbon emissions.

Both reports are available at www.BlueprintForYorkshire.com.

YW is required to publish an annual Risk and Compliance Statement each year by its regulator, Ofwat. In this year's Risk and Compliance Statement the YW board identified pollution incidents and discharge permits compliance as material or potentially material risks.. Mitigation plans have been put in place to tackle the potential risks, details of which can be obtained in the Statement publication, available at: www.yorkshirewater.com.reports. Details of these risks and the management responses are also found in this report. Further details on company performance and management responses to both these risk areas can be found in the Excellent Catchments, Rivers and Coasts SBO section of this report.

Engaging with customers and stakeholders
In 2013/14 YW completed its biggest ever customer and stakeholder engagement programme. To inform the development of its business plan for the period from 2015 to 2020 and beyond, the views of more than 30,000 customers and 100 stakeholder groups were obtained.

YW established an independent Customer Forum to help ensure that its customers had a fair say in its plans. The independent Forum represents the needs of customers and the environment in the Yorkshire region. The Forum challenged YW to be more transparent, to strike the right balance between customer needs and environmental leadership, and to do everything it could to keep bills low. YW will continue to work with the Forum in the future to ensure that customers have an ongoing say in its plans.

YW held a stakeholder conference at the Yorkshire Event Centre in Harrogate in July 2013, to share and discuss its plans. The event was attended by representatives from more than 80 different organisations, including Local Authorities, NGO's, businesses, academic institutions and investor groups.

YW aims to have an innovative and continually evolving engagement programme in place with all its stakeholders. One way this will be achieved is through a new research and insight team who will manage regular engagement activities and help ensure decisions are based on customer insight.

Full details of YW customer engagement and plans can be found at www.BlueprintForYorkshire.com.

Working in partnership
Working in partnership is becoming ever more important to effectively and efficiently address priorities such as flooding and pollution. YW has many examples of where it is already working with others to deliver greater benefits for the region, but it also recognises that there is a need to do more of this.

YW is currently formalising its approach to partnership and stakeholder relationship management. This will help YW to ensure that it manages stakeholder relationships in a tailored way that best suits both parties, and that it is effective in developing partnerships where they have the biggest benefits for its customers and wider society.

YW has worked in partnership with various organisations for many years. For example:

- worked closely with the Environment Agency and Local Authorities on the regions flood management by sharing data and hydraulic models, and sharing resources in emergencies;
- an active member of the Yorkshire Bathing Water Partnership that has been successful in growing the number of Blue Flag beaches in the region; and
- continue to restore and protect vast areas of Yorkshire's uplands by working closely with organisations like the Yorkshire Peat Partnership and local land owners.

Supporting the community
YW lead an extensive community engagement programme to go beyond its regulatory duties by providing support and help-in-kind to a wide variety of different organisations across Yorkshire. YW encourage and support colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. Support was provided in three key areas:

- Education – raising awareness of young people and local communities on the value of water and their role and YW's in safeguarding this precious resource;
- 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.

Benchmarking the approach to being a responsible business
YW uses the Business in the Community (BiTC) Corporate Responsibility Index as one way to benchmark its performance against its peers each year. The BiTC Index is the UK's leading voluntary benchmark of corporate responsibility. In 2013/14 YW's score increased to 93%, up from 90% the previous year. YW has also been awarded a BiTC Big Tick in their Responsible Business Awards 2013/14. The increase in the score and the success in winning a Big Tick provides external assurance that YW is among the leaders in corporate social responsibility and sustainability.

Managing colleague trust
The strong performance achieved in 2013/14 was as a result of the hard work, commitment and energy of all colleagues. It was a demanding year of change, not least

because of an organisational restructure and change to pension plans. In addition, colleagues were affected by the external national debate in the media about YW and other utilities.

Generally, colleagues say they are proud to work for YW as a provider of essential and quality water and waste services. However, through internal surveys and regular leadership feedback sessions, colleagues indicated that trust fell in the second quarter of 2013/14. Recognising that trust is something that needs regular reinforcement, business leaders in YW have made colleague trust a business priority in 2014/15.

Recognising that trust is something that needs regular reinforcement, YW's business leaders have made colleague trust a business priority in 2014/15. Trust is already a strong foundation for YW and its plan is to continue to build on this, for example through more visible leadership, stronger internal communications and engagement, improved problem resolution, greater employee recognition and increased partnership working with trade unions.

STRATEGIC BUSINESS OBJECTIVE – SAFE WATER

The Group works safely to protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

Measures of our regulatory compliance	Target	Current year	Previous year
Internal sewer flooding (number of incidents)	127	76	155
*Water quality – overall compliance	99.95%	99.96%	99.93%

Ofwat define their Key Performance Indicators for the water industry on their website, at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

*Calendar year measure

Measures of our ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Overall trend**
YW's health, safety and wellbeing culture is recognised as mature, leading to positive external influence.	Have a clear plan in place for the effective implementation of the new Occupational Health & Safety Management System (OHSMS).	Plan in place for OHSMS.	⇧
YW is recognised by the Drinking Water Inspectorate (DWI) as improving across all water quality measures.	Agree investment plans for PR14 and a stretching programme of catchment management with the DWI.	Investment programme (including catchment management) agreed with DWI and included in the plan for 2015 to 2020.	⇧
	Service reservoir improvement plan developed.	Service reservoir improvement plan implemented in 2013/14.	⇧
A strategic plan considering all causes and sources of flooding, to protect the people of Yorkshire from sewer flooding.	An agreed storm water management strategy in place.	Storm water management position paper produced and programme of activity included in the plan for 2015 to 2020.	⇧
YW is recognised as an industry leader in the promotion of global safe water.	Agree approach internally and test with the Department for International Development (DfID) and the water industry.	High level approach defined, including public commitment to the WaterAid Ethiopia project. Positive feedback from DfID.	⇧
YW is a recognised leader in recreational use of land and waters.	Recreational strategy for Yorkshire Water owned waters and land in place.	Recreational strategy to be developed.	⇔
	Recreational stakeholder Forum established.	Recreational stakeholder Forum to be developed.	⇔

The arrows show the trend of YW's annual performance in the context of its long-term goals. Further explanation is provided on page 3.

Putting people's health, safety and wellbeing first
To achieve the vision and SBOs, it is essential that YW work to prevent harm and protect health across all stages of its business operations, environments and communities.

The drive for continual improvement is supported by an Occupational Health & Safety Management System (OHSMS). This enables the company to enhance its health and safety performance and to maintain a clear focus on meeting the needs of our people, stakeholders, customers and members of the public. This is at the heart of the company approach.

Further information on the Group's health and safety approach is detailed in the Directors' report on pages 46 and 47.

Maintaining excellent drinking water quality
Protecting public health is a primary duty. Drinking water quality within Yorkshire remains excellent, amongst the best in the world. In 2013/14, YW's compliance increased to 99.96% of thousands of samples meeting tight regulatory standards. YW completed a large service reservoir inspection and improvement programme in 2013/14 to contribute to this performance improvement and manage a risk of microbiological failures. Further details on YW's water quality performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

Over the past two decades, raw water quality has deteriorated in many catchment areas. The more polluted raw water is, the more the need to treat it to make it fit for drinking. A twin-track approach is used to ensure that customers receive high quality drinking water despite the deteriorating raw water quality. YW is investing to enhance treatment capabilities where the probability of failure presents an unacceptable risk to customers. The long-standing programme of capital investment will continue with a further £49m of investment in the period from 2015 to 2020, including action at six large treatment works. Investment in catchment management, as a primary long-term response to address the issue at source, is also planned. The approach to catchment management is outlined in the section on the Excellent Catchments, Rivers and Coasts SBO.

Reducing flood risk
In 2013/14 YW removed 66 properties from being at risk of sewer flooding and reduced the overall number of properties at risk of sewer flooding on the regulated risk register to 204 across the region. YW continues to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. Further details on YW's sewer flooding performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

YW played an active role in the response to the east coast storm surge in December 2013, described as the most serious UK storm surge for over 60 years. YW had representatives at the two Strategic Command Centres which operated in East and North Yorkshire to manage the response. In Hull YW assets were utilised to remove 35,000 tonnes of water from the city. Services were maintained, despite damage to YW assets.

YW also offered assistance to the Environment Agency (EA) during the extensive flooding to the south and west of the UK during the early part of 2014.

YW is working in ever closer partnership with other flood management authorities, for example:

- worked with Calderdale MBC and the EA on reducing flood risk in the Calder Valley;
- sharing information with the Lead Local Flood Authorities identifying relatively low cost joint funding flood schemes, notably in Sheffield and East Riding of Yorkshire; and
- playing an active part in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships, by sharing our future flood and investment plans and informing the RFCC of the investment framework and plans.

YW is also investing to protect its own assets from flood risk to enhance the resilience of its services. For example, YW has invested at Hull and Market Weighton to provide a 1 in 1,000 year level of protection at these key sites, and YW is investing at Moor Monkton in 2014/15.

Extreme weather and urban growth are causing increasing pressure on the sewer network and the risk of flooding. YW is planning for the future and produced both its climate change strategy and storm water management position paper in 2013. YW will continue to invest to mitigate the risk and manage the consequences of sewer flooding. One part of the plans is a new £8m fund for flood partnership projects.

The company is also focusing on customer behaviour by developing education and awareness programmes to sewer blockages caused by customer activities, in particular disposal of fats, oil and greases (FOGs), nappies, wipes and other materials which are inappropriately disposed of via the sewer network. For example, YW has been trialling an approach of customer engagement combined with above ground collection of FOGs in an area of Bradford where the company has observed repeated sewer blockages.

Supporting global safe water
As Kelda Group, we recognise a moral obligation to support those who do not have access to clean safe drinking water and safe sanitation. Around the world, 3.4 million people die each year from water related diseases and 780 million people lack access to safe clean drinking water.

We have a long history of fund raising for WaterAid, and our SBO ambition is to go much further. Our aim is to be globally recognised as a leader in the delivery of safe water. We have recently launched a strategic partnership with WaterAid Ethiopia. This will deliver knowledge sharing on water and sanitation, provide infrastructure support, fundraising and much more.

We recognise that we are at the early stages of a long-term ambition and we continue to develop our approach.

Providing access to land
YW is one of the largest land and open-water owners in Yorkshire. YW owns approximately 29,000 hectares of land which includes upland moors, woodland of mixed age and species, reservoirs, and the land that is rented to farmers. For many years YW has provided open access to much of its large estate, particularly the woodland and upland moors. This has provided a wide range of recreational opportunities that include 100 km of permissive footpath, 33 km of permissive bridleway/cycle routes, two nature

reserves, two fisheries and a range of ancillary facilities such as car parks, picnic sites, toilets and information points in addition to 1,100 km of public rights of way and Countryside and Rights of Way Act (CRoW) access land.

YW works to ensure large numbers of people can safely enjoy its land and YW is dedicated to increasing its recreational offering through direct management and lease arrangements. The Tour de France came to Yorkshire in 2014, and YW played its part to make sure the event was a global success, and that YW's land and waters supported the growing recreational demand brought by the event.

Find out more on the website at:
http://www.yorkshirewater.com/walks-and-leisure.aspx

STRATEGIC BUSINESS OBJECTIVE – EXCELLENT CATCHMENTS, RIVERS AND COASTS

The Group maintains and improves the water environment from source to sea, and influence others to do the same.

Measures of our regulatory compliance	Target	Current year	Previous year
*Pollution incidents, sewerage (number of Category 1-3 incidents per 10,000km of sewer)	97.70	78.10	82.68
*Serious pollution incidents, sewerage (number of Category 1-2 incidents per 10,000km of sewer)	1.63	3.27	1.63
*Discharge permit compliance	98.00%	98.00%	97.31%

Ofwat define their Key Performance Indicators for the water industry on their website, at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

*Calendar year measures

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Overall trend**
An approved ecosystems services approach for land management to deliver stable water quality.	66 Water Safety Plans submitted and the Water Quality Submission supported by the Drinking Water Inspectorate (DWI).	Water quality submission supported by DWI and included in our plan for 2015 to 2020.	
	Safeguard Zones (SGZ's)are signed off with Environment Agency (EA) for implementation in the period 2015 - 2020.	Partnership approach to SGZ being agreed with EA and others.	
	Invasive species policy agreed.	Invasive species policy documented with formal approval and ownership on-going.	
To fully understand and manage the company's assets and their impact on the environment.	7 river catchment systems with plans in place.	Our investment plans have been defined with the EA and we continue to work in partnership.	
	1.6 serious sewerage pollution incidents per 10,000km of sewer.	3.27 serious sewerage pollution incidents per 10,000km of sewer. Long-term trend of improvement with annual fluctuation.	
To maintain Excellent standard on all designated beaches.	To achieve 2 Blue Flags.	3 Blue Flags achieved.	
External endorsement for non-designated beach standards.	Water quality compliance at 2 resort beaches achieving 'Excellent' standard.	2 resort beaches achieving 'Excellent'.	

The arrows show the trend of YW's annual performance in the context of its long-term goals. Further explanation is provided on page 3.

Reducing pollution and enhancing river water quality
YW is responsible for collecting, treating and returning about 1 billion litres of waste water safely back to the environment every day. Over the last 20 years, by investing to enhance waste water treatment capabilities, YW has delivered a step change in river water quality.

YW improved its performance on waste water treatment in 2013/14, with discharge permit compliance reaching 98%. YW also continued its on-going capital investment programme, responding to new legislative drivers and population growth. Plans are in place to further improve discharge permit compliance, details of which can be obtained in the Risk and Compliance Statement publication available at: www.yorkshirewater.com.reports.

The total number of pollution incidents from the sewer network has continued to reduce over recent years, from 95.10 incidents per 10,000km of sewer in 2011, to 82.68 in 2012, to 78.1 last year (2013). The number of the most serious pollution incidents (Category 1 and 2) has fluctuated in recent years but shows an overall trend of improvement. Performance has fallen from 4.25 incidents per 10,000km of sewer in 2011, to YW's best ever performance in 2012 with 1.63 incidents per 10,000 km of sewer, increasing to 3.27 in 2013.

Overall, YW's pollution performance has improved over the course of this Asset Management Period (2010 to 2015). This improvement can be attributed to the Pollution Reduction Plan, which will continue to run throughout 2014/15. YW's plan includes a range of people, process, technology and capital investment activities. In 2014 YW will be trialling a new proactive intervention technique using weather trigger levels. It is known that dry spells cause blockages that can lead to pollution incidents so YW will jet at hot spot locations after a set number of consecutive dry days to break up and remove sewer litter before it becomes a problem.

YW has been working with the EA to model the impact of discharges across the region to understand the ecological implications. Together, a programme of environmental investment and investigation needs, totalling over £300m for the period from 2015 to 2020 has been defined.

YW has prioritised a series of sites to remove or bypass barriers to fish passage and in 2013 opened its first fish pass site, at Rodley in Leeds.

Investing in the region's bathing waters
Investment of £110m to enhance Yorkshire's coastal water quality is nearing completion. YW is improving the treatment capabilities of its coastal waste water treatment works, and increasing the storage capacity of its sewer network at key locations. This will help secure a step change in the region's bathing water quality and will ensure the region's compliance with the revised Bathing Waters Directive which introduces tighter legal standards from 2015.

YW is an active member of the multi-agency Yorkshire Bathing Water Partnership. This group of organisations is working together to align the region's activities on bathing water quality and beach management.

This has resulted in all of the region's 20 bathing beaches meeting the minimum Mandatory Standard in 2013. There were no failing beaches. 16 beaches met the higher Guideline Standard and were recommended in the latest Good Beach Guide by the Marine Conservation Society, which is an improvement of six beaches since last year.

The region has achieved three coveted Blue Flags this season, one more than last year. Hornsea has joined Scarborough North and Whitby and will fly the Blue Flag this bathing season.

In the future, the work of the Yorkshire Bathing Water Partnership are expected to secure more beach awards for the region.

Protecting raw water quality
The quality of the raw water that YW abstracts has been deteriorating in many catchments over the past two decades. This is a consequence of pollution, unsustainable land management practices and climate change.

YW invests in enhanced Water Treatment Works (WTW) capabilities to ensure customers always receive the highest quality drinking water. More about this is described in the Safe Water SBO section.

In parallel to investment at the WTW, issues need to be addressed at source. YW has a catchment management programme which is its primary long-term response. This covers a range of water quality parameters including colour, pesticides, nitrates and saline intrusion on reservoir, river and borehole sources. Peat moorlands are particularly important in the region because they are the source catchments for a large proportion of the drinking water.

In 2013, together with the EA, Natural England and the National Farmers Union YW is starting to establish a partnership approach to the development and implementation of Safeguard Zones and supporting Safeguard Zone Action Plans. These zones and plans are being established to better protect the catchment areas that influence the quality of water abstracted for drinking water purposes. YW also worked in partnership with the EA to develop plans for each of the seven Water Framework Management catchments in its region.

In December 2013 YW published its operational and investment plans for the period from 2015 to 2020. The plans were developed using a multi-agency approach and respond to recent investigations and modelling into the reasons for raw water quality failures.

In early 2014, YW's Catchment Manager joined Defra's Best Practice Burning Group to help them develop sustainable land management guidance and policy that will better protect and enhance UK uplands. YW is working with a range of relevant organisations including the Moorland Association, Natural England and the National Farmers Union.

YW's future moorland management programme will deliver investigation and implementation activities in the catchments where colour pollution is likely to overwhelm WTW capacity in the longer term. Nitrate and other pollutants that present risks to a number of YW's groundwater sources will be investigated

Managing invasive species
Invasive species present increasing challenges to the land and water YW manages, and to its assets and operations. YW has drafted a policy on its approach to invasive species and are currently formalising this internally. The draft policy has been discussed with an independent Environmental Advisory Panel and received their support for the approach.

Actions have been included in the plan for 2015 to 2020 to manage invasive species. For example, working in partnership with others on projects to address riparian invasive species as part of wider river catchment management plans. This will involve landowners working together collaboratively on whole stretches of river to maximise the success of controlling problem species.

STRATEGIC BUSINESS OBJECTIVE – WATER EFFICIENT REGIONS

The Group ensures water needs are met now and in the future by using water wisely and inspiring others to do the same.

Measures of our regulatory compliance	**Target**	**Current year**	**Previous year**
Water supply interruptions (hours per property served)	0.25	0.17	0.17
Total leakage (mega litres per day)	297	282	264
Security of supply index	100%	100%	100%

Ofwat define their Key Performance Indicators for the water industry on their website, at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

Measures of our ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Overall trend**
The company own use of water significantly reduced. All of the company's own non-potable water requirements delivered with non-potable water.	Baseline own water use and identify opportunities for savings (excluding leakage which is covered separately below).	Water use baselined and continue to develop understanding and approach.	
The company and its customers understand and drive efficient water use, with no impact on long-term income generation.	Domestic customer water efficiency saving 1.55 mega litres per day (Ml/d) a year.	Domestic water reduction of 2.3Ml/d.	
	Business customer water efficiency saving 4 Ml/d a year.	Business customer water reduction of 4.2Ml/d	
Achieve the company's Sustainable Economic Level of Leakage (SELL) for the period 2015-2020.	Maintain leakage level at 297MLD/year.	YW beat the target and achieved 282 Ml/d. This performance continues YW's long-term trend of improvement with annual fluctuation.	
	Reduce our average night pressure by 1.5 metres compared to a baseline of 49.5 meters.	Average night pressure reduced by 0.2m and working to improve data accuracy.	
Sustainable catchment efficiency programmes rolled out across Yorkshire and areas of import/export understood.	Catchment efficiency targets set for all catchments.	Catchment efficiency targets being developed.	
	All YW's abstraction understood.	Abstractions understood - comparing consent limits and historic water use.	

The arrows show the trend of YW's annual performance in the context of its long-term goals. Further explanation is provided on page 3.

Securing water supplies
Customers place a high value on the reliability of their water supply. YW operates, maintains and enhances over 50 Water Treatment Works and a distribution network of over 31,000km of water mains in order to treat and supply around 1.3 billion litres of drinking water each day. YW can be proud that, following extensive investments, Yorkshire has had no service restrictions such as hosepipe bans since the 1995/1996 drought.

YW's performance in 2013/14 remained strong, with improved performance on the length of time involved in supply interruptions, and maintained maximum possible performance on the industry measure for security of supply. YW has also shown strong performance against leakage and other water efficiency targets, which are discussed in the next sections.

The risk of water shortages or supply interruptions is a constant priority because of the consequences to customers, and to operations and finances. In 2013/14 a new Drought Plan, and the revised draft of a new Water Resources Management Plan (WRMP), were published. These plans confirm that climate change presents a growing threat to YW's ability to maintain the balance between supply and demand.

Water resources management is its most mature area of current resilience and future planning. YW has maximised the benefit of the good range and balance of water supply options in its region by developing infrastructure that allows water to be moved around the region to where it is needed. This is called the Yorkshire grid and it covers 99% of customers following completion of an extension to Scarborough in 2013. YW manages its grid to offer one of the most resilient water supply systems in the country.

The revised draft WRMP describes how YW will maintain the balance between water supply and demand over the next 25 years. This will be finalised in 2014 following further engagement with Defra. The latest version can be found at:
www.yorkshirewater.com/our-environment/water-resources/managing-water-resources.aspx

The YW Drought Plan contains a framework of options that allow a drought to be best managed dependent on conditions. In the event of a drought, advance planning enables YW to act quickly because its options have been assessed for their cost and environmental impact, and agreed with the EA. The YW Drought Plan can be found at:
www.yorkshirewater.com/our-environment/water-resources/drought-plan.aspx

In 2013, YW published its plans for the period from 2015 to 2020. These plans describe the operational and investment programme to manage water services. Activities will include increasing network storage and working on projects to manage network pressure. To respond to bursts and other network problems more effectively, YW will be enhancing its visibility of the network by installing a further 4,500 data loggers that automatically send data to YW's regional command centre every 30 minutes. Water efficiency is central to YW plans and is described below.

Reducing the company's own water use
Leakage is by far the dominant source of water waste. YW measures, reports and reduces leakage, of which about two thirds results from its distribution network and a third is from leaks in customers' supply pipes.

YW have almost halved leakage since 1995 and recorded its lowest ever levels in 2012/13, achieving 264.72 Ml/d. Leakage performance in 2012/13 was not economically sustainable so in 2013/14 YW continued to out-perform its regulatory target (297.1 Ml/d) by a substantial margin, with leakage of 282 Ml/d.

YW will be investing in further leakage reduction in the period from 2015 to 2020 as this is found to be the most cost and environmentally effective way to mitigate the growing deficit in the balance between water supply and demand. YW plans to reduce its leakage target by a further 10 Ml/d, from 297.1 to 287.1 Ml/d by 2020. YW will strive to out-perform this target and to continue finding ways to sustainably reduce leakage by focusing its operational resources and further innovation.

The many ways YW supports customers with their leaks and overall water efficiency is described in the section below.

Working with customers to save water
YW works hard to actively assist its domestic and business customers in valuing water and becoming water efficient. Its goal is to deliver tangible water efficiencies and sustainable behavioural change.

In 2013/14 YW provided more free water saving devices than ever before, nearly 128,000 devices, along with a range of advice and support services. It supported domestic customers to save 2.3 million litres of water per day (Ml/d), against a target of 2.1 Ml/d and business customers also saved 4.2 Ml/d against a target of 4 Ml/d.

YW has achieved its water efficiency targets since it introduced them in 2010 and is committed to continuing to do so into the future. More information can be found on the water efficiency section of the website at:
http://www.yorkshirewater.com/save-water-and-money.aspx.

Reforming abstraction licences
The Water Act 2014 introduces new provisions to facilitate the creation of a national water supply network by making it easier for water companies to buy and sell water from each other.

YW has traded water with its neighbouring water companies for many years and considers such options as a standard part of its planning. YW has a notable import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. YW also exports a small amount of treated water to Anglian Water to support their needs.

YW continues to engage in the evolving national approach to abstraction licence reform.

STRATEGIC BUSINESS OBJECTIVE – SUSTAINABLE RESOURCES

The Group uses sustainable resources, get the most out of them and reduces emissions and waste.

Measures of our regulatory compliance	Target	Current year	Previous year
Greenhouse gas emissions (kilotonnes of Carbon Dioxide equivalent, CO_2e)	373	357	386
*Satisfactory sludge disposal	100%	100%	97.72%

Ofwat define their Key Performance Indicators for the water industry on their website, at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

*Calendar year measures

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Overall trend**
A Sustainable Resources culture is embedded in the company's organisation.	100% of Kelda Group colleagues are engaged with energy awareness.	Virtually all colleagues engaged through internal CO_2llaborate campaign.	↑
	7/10 in internal employee survey regarding Sustainable Resources.	Last Sustainable Resources score was 6.6.	N/A
	20% reduction in head office energy use.	11% achieved and further plans in progress.	↑
The company's approach to supply chain and waste is seen as sector leading.	Reduce total electricity consumption by 3% (2010-11 baseline).	Electricity consumption down 6% since 2010/11.	↑
	100% contract renewals assessed against sustainability criteria.	The company continue to develop its sustainable contract framework.	↑
	75% waste diverted from landfill, (excluding sewage sludge to landfill or land recycling).	90% waste diverted from landfill.	↑
Partnerships established which have mutual benefits with regard to resources.	£150,000 of mutual benefit delivered.	£285,000 income for YW and partnerships continue to develop.	↑

The arrows show the trend of YW's annual performance in the context of its long-term goals. Further explanation is provided on page 3.

Reducing greenhouse gas emissions

YW has reduced its operational emissions by about 18% since 2008/09, despite numerous growth pressures. Success in achieving the Carbon Trust Standard and its predecessor the Energy Efficiency Accreditation Scheme has demonstrated its leading emissions reduction performance through an independent verification process.

YW has published details of its emissions every year since 2004, continually improving its approach each year. Since 2008 YW has also been required to report emissions to the regulator, Ofwat. Emissions for 2013/14 and the previous year are shown in the table below.

YW follows the agreed water industry approach to operational carbon accounting. This involves population of the Carbon Accounting Workbook (CAW), a spreadsheet tool for use across the water industry to measure and report emissions. UKWIR and WRc update and revise the CAW on a regular basis to improve the accuracy of emissions factors and ensure alignment with Ofwat and Defra reporting guidelines. YW is actively involved with each update and use the most recent version of the tool to compile its annual carbon footprint each year. 2013/14 emissions are calculated using CAW version 8.1, released in late 2013.

YW will continue to monitor and publish its operational emissions and use this data to prioritise its resources to deliver emissions reduction. YW will continue to develop its accounting methodologies for embodied emissions and how they are used to inform planning.

	2013/14	2012/13
Operational emissions – tonnes of carbon dioxide equivalent (tCO_2e)		
Scope 1 emissions tCO_2e	83,066	88,114
Scope 2 emissions tCO_2e	245,228	292,308
Scope 3 emissions tCO_2e	29,262	6,419
Total emissions tCO_2e	356,982	385,843
Intensity ratio – kilogrammes of carbon dioxide equivalent (CO_2e)		
Emissions per million litres of water served	264	285
Emissions per million litres of waste water treated	320	295

Scope 1 emissions are those directly released to atmosphere. Scope 1 emissions are released from: burning fossil fuels on YW's sites; driving company vehicles; and, releasing gasses during treatment processes.

Scope 2 emissions are those indirectly released to atmosphere through the purchase of electricity, heat or steam. YW purchases large amounts of grid electricity to pump and treat water and waste water.

Scope 3 emissions are other indirect emissions. For YW, items included are business travel on public transport and in private vehicles, activities from outsourced operators and emissions from the transmission and distribution of the grid electricity purchased.

Please note that there was a national change in accounting methodology in 2013/14, with emissions from electricity transmission and distribution now split between Scope 2 and Scope 3. This accounts for much of the increase in Scope 3 emissions between 2012/13 and 2013/14.

Please also note that Scope 1 to 3 emissions do not add up to Total emissions (356,982 tCO_2e) in the above table because the Scope 1, 2 and 3 figures are gross not net.

Reducing electricity consumption and costs
It takes a large amount of electricity to run an organisation as big as YW, approaching 600 GWh each year. YW electricity use results in approximately 75% of its operational emissions and it is one of its largest and most volatile operating costs.

YW responds to these business risks and opportunities by minimising the electricity it need and maximising its ability to generate its own electricity. This approach helps YW to reduce its emissions and keep costs low too.

YW has made great strides in recent years, successfully reducing its total electricity consumption by 6% since 2010/11. This follows many years of growth in electricity demand since privatisation, driven primarily by investment to meet new legislation for environmental water quality. This has been achieved this through a variety of approaches, including cost-effective capital investment, operational efficiencies and targeted training.

The energy used at the head office site in Bradford accounts for less than 1% of the company's total carbon footprint. However, in accommodating over half of YW staff, and with regular visitors and guests, every effort is made to set an example in demand reduction and renewable energy culture. While the ambitious target for a 20% reduction in just one year was not achieved, consumption was reduced by an impressive 11%. Efforts continue.

YW has invested to create a substantial portfolio of renewable energy generation assets, mostly using sewage sludge to create low cost, low carbon energy. In 2013/14 two major investments were completed which dramatically increased the ability to generate renewable energy from sewage sludge. Bradford's waste water treatment works is now approaching self-sufficiency for its substantial energy needs following over £30m of investment. Sheffield's waste water treatment works also has a new large self-generation capability following of investment of £23m.

YW forecasts a sharp increase in its consumption and cost of electricity if it does not continue to act. This is caused by a range of factors, including national and global uncertainty in energy sources, the costs of replacing and decarbonising the UK's aging energy infrastructure and ensuring compliance with new environmental water quality legislation. To mitigate this risk YW continues to plan to reduce its electricity demand and grow its ability to generate low carbon energy.

Creating a culture that helps to maximise efficiency and resilience
The company is committed to ensuring that all colleagues have the right training and tools to allow them to make informed decisions and to understand their role in sustainable resource use which is lean and resilient.

In 2013/14 a new and bespoke web-based environmental awareness course was developed. It provides training on all of YW's environmental impacts, focusing on energy consumption and energy efficiency. So far over 1,500 (40%) of Kelda Group colleagues have completed the training.

A more detailed training programme has also been developed for those in the business who run and optimise YW's most energy intensive processes. This aims to provide the relevant colleagues with the skills and confidence necessary for them to drive real change and improvement in the business. The training is in the form of a series of modules that ultimately provide the colleagues with their 'energy passport' to work.

These are just two examples from YW's cultural change programme 'CO_2llaborate to use less'. Virtually every single colleague has received some form of carbon and energy engagement through the communications and training programme.

Turning waste into resource

As a company, YW recognises the need to reduce waste in all its forms, everything from unused construction materials and by-products of treatment processes, to lost time and avoidable travel. Much of what is thought of as waste can actually generate new value through reuse by the company or someone else – creating what is known as a circular economy. Minimising waste and turning it into new resource is essential to the business to help the company remain efficient, reduce its environmental impact, keep bills low for customers and provide returns for investors.

Sewage sludge is a large and renewable resource. Through a variety of innovative approaches YW is now able to generate renewable, low cost, low carbon energy from sewage sludge. After treating the sludge products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts are created.

After treating the sludge YW also creates products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts. During 2013 YW completed an action plan and improved performance to 100% compliance with sludge disposal regulations. YW forecasts to maintain compliance at 100% in 2014. Further details of the action taken to improve performance can be found in YW's Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

Increasing the rates of recycling from offices, construction sites and operational sites has also been successful and in 2013/14 a target of almost 90% of diverting waste from landfill was achieved.

In 2013/14 YW also developed a plan to implement numerous opportunities to work in partnership to deliver mutual benefit. For example, in October 2013 YW established fat, oil and grease (FOG) collection facilities for domestic customers in a known sewer blockage hotspot in Bradford. By helping customers to use their sewers more appropriately, this reduces the need for avoidable sewer maintenance work and potential problems from sewer flooding and pollution while a third party can collect the energy rich material and create power as well as a financial return. This is a pilot trial at present with a view to developing a full scale operation.

Achieving SBO ambitions throughout the supply chain

Working with the best suppliers is vital to ensure that the company can continue to improve its performance and provide a better service to customers. YW also recognises and manages a risk from interruptions to its supply chain. The ambition is for YW's global supply chain to share the company's commitment to the continuous improvement of the water environment and wider sustainable development.

In 2013 YW published its new sustainable supply chain policy. This applies across all of its supply chain activities and seeks to articulate a consistent approach with straight forward expectations. YW will work with its supply chain to ensure security of essential supplies and to continually reduce demand for depleting natural resources while enabling a cycle of social, economic and environmental improvements. YW expect that its supply chain partners will deliver a similar message within their own supply chains.

YW's sustainable supply chain policy can be found at:
http://www.yorkshirewater.com/about-us/supplying-us.aspx

Dependent on the nature of the contract, YW's current evaluation process will consider areas such as energy, resource efficiency, waste management, human rights, labour practices and legal compliance.

Environmental policy and governance

YW environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. The company is, therefore, committed to integrating environmental best practice and continuous improvement through the efficient, effective and proper conduct of the business.

YW uses the Business in The Community (BiTC) Environment Index to help benchmark its environmental performance. YW increased its score to over 95% in 2013/14, reaching BiTC Platinum status.

Environmental performance is reported through the website which is regularly updated. This can be viewed at www.yorkshirewater.com/our-environment.aspx

STRATEGIC BUSINESS OBJECTIVE – STRONG FINANCIAL FOUNDATIONS
The Group delivers services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

The financial performance of the Group is reviewed on pages 33 to 35.

Determining future prices and operational and investment plans
The UK water industry is closely regulated to protect society's interests. At the heart of the regulatory framework is a five yearly Price Review process that requires water companies to produce business plans detailing how they will achieve their legal requirements and customers' expectations. The plans are submitted to the industry's economic regulator, Ofwat, to determine limits on customer prices. Through these controls and requirements, the Price Review plays a fundamental role in shaping YW's financial foundations.

In December 2013 YW published its plans for the period from 2015 to 2020. This followed over two years of detailed consultation, investigation and assessment to inform what Yorkshire needs from its water and waste water services. YW developed a plan which aligns with customer priorities and reflects its aim to invest for a sustainable future while keeping bills affordable.

Between 2015 and 2020 YW plans to spend £3.8 billion to deliver the resilient services customers and stakeholders said that they need, and 95% of this expenditure relates to customer's highest priorities.

YW bills are already some of the lowest in the industry at £368 per annum for an average household customer in 2013. YW is planning to keep bills low. In 2014/15 YW was allowed to increase prices by 1.6% above RPI. YW decided to cap this increase at RPI. This means in 2014/15 YW will be reducing average household bills by £6 in real terms compared to what was allowed by Ofwat. YW proposes to continue this saving throughout the life of the plan meaning a total average household saving of £36 over six years.

In 2013/14 YW completed its biggest ever customer and stakeholder engagement campaign to inform the development of its business plan for the period from 2015 to 2020. Overall 77% of those asked supported YW's proposals. More is explained about this in the Trusted Company SBO section.

Ofwat will conclude the price preview process before the end of 2014. YW believes it has provided robust plans that meet customer and legislative requirements, however there is a risk in that Ofwat is able to alter the plans which would have significant consequences for future operations, investments and financial performance.

You can find out full details of the customer engagement and the plans at:
www.BlueprintForYorkshire.com.

Ensuring affordability and managing customer debt
YW customer bills are already some of the lowest in the country and the company is committed to doing everything it can to keep bills low. With that in mind, YW decided not to proceed with the planned 2014/15 price increase agreed with Ofwat in 2009 of RPI plus 1.6%, capping the increase at RPI.

As described above, this decision meant that from April 2014 the average household bill in Yorkshire stayed in line with the rate of inflation, with the average bill being £373, £6 lower than planned. In the new business plan, the proposal is to maintain this saving for customers through to 2020.

By becoming even more efficient and by reducing returns to investors YW can ensure bills stay in line with inflation while maintaining and enhancing the services provided to customers and the environment.

Non-recovery of customer debt is a risk. It may cause profitability to suffer in the short-term and increase cost to paying customers in the medium to long-term. Allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable. To mitigate this risk, YW 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.

During 2013/14 YW were offering more debt support to more people than ever before through a range of assistance packages. New innovative agreements with credit reference agencies are helping us to better target those in most need.

The Resolve scheme is just one of the many support arrangements offered customers. This scheme provides customers with an opportunity to clear their debt by maintaining a payment arrangement which will result in the company making a corresponding write-off of the remaining arrears. To qualify customers must have arrears of at least £500 and have a low income.

In 2014/15 YW will introduce a new affordability scheme where it will proactively seek to identify vulnerable customers and help them before they get into debt.

Preparing for increasing competition in the water industry
The Water Act 2014 received Royal Assent in May 2014. The Act includes a range of important measures for the water sector. It will introduce greater freedom for businesses, charities and public sector customers in England to choose their water supplier. This will connect with an existing retail market in Scotland. This presents both opportunities and threats to YW's business and YW is watching developments closely as the company continues to develop its position.

Increasing retail competition will make the Competition Act increasingly relevant to YW's business and the wider water industry. YW will need to introduce separation between its business retail activities and the rest of the business and it will be implementing the necessary preparations and controls to ensure compliance and fair trading practices.

The Water Act will also introduce measures to facilitate water trading. We continue to engage in the evolving national approach to abstraction licence reform and the trading and movement of water nationally.

Delivering the company's capital investment programme
YW invests significant capital expenditure to add to and replace 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 period and the associated funding costs and operating costs.

In 2013/14 YW has continued to govern closely the effective delivery of the capital programme. A Board Capital Investment Committee (BCIC) with delegated power from the board, monitors the capital programme delivery and provides strategic direction.

If YW were unable to deliver its capital investment programme at expected expenditure levels, were 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 Price Reviews by seeking to recover amounts equivalent to the “allowed costs” of any parts of the programme that are not delivered. The 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.

Governing borrowing requirements
Treasury operations are controlled centrally by a treasury department which operates on behalf of all companies in the Group and is controlled by the ultimate parent company. 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. Subject to the restrictions required by the Whole Business Securitisation that applies to Yorkshire Water, 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-/A-/A3 and a short term rating of at least A1/F1/P1 issued by Standard and Poor’s, Fitch and Moody’s respectively.

Managing financial risk
The executive team (Kelda Management Team, ‘KMT’) 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 YW’s financial control procedures.

The Group’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 Group actively maintains a broad portfolio of debt, diversified by source and maturity and designed to ensure the Group has sufficient available funds for operations.

The Group is exposed to commodity price risk, especially energy price risk, as a result of its operations. The Group aims to manage this risk by fixing contract prices where possible operating within an energy purchasing policy that is designed to manage price volatility risk.

The insurance team work to ensure that the Group manages and mitigates its exposure to costs from public liabilities and damage to its assets.

Managing changes in the rate of inflation
Turnover is linked to the underlying rate of inflation (measured by 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 YW's operating costs and capital expenditure, and on customers' ability to pay any increased charges.

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

Managing changes in the Construction Output Prices Index
Under the 2009 Final Determination from Ofwat, 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 current investment period (2010 – 2015) 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 investment period (2015 – 2020). 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 YW's target level of gearing is adjusted to reflect any movements in COPI compared to RPI to eliminate any impact on RCV (as defined on page 36) in the subsequent price control period.

UK Service Operations

UK Service Operations comprises Kelda Water Services, Loop and Safe-Move, a non regulated trading arm of Yorkshire Water which provides property search information to solicitors. Operating profit for the UK Service Operations group and its associated undertakings for the year to 31 March 2014 was £18.2m (2013: £13.6m), reflecting the continuing strong operating performances of existing businesses.

Kelda Water Services Ltd (KWS)

KWS is a leading UK water and waste water contract operations company. KWS continues to seek growth in its core market, providing water and waste water operations and maintenance under long term contracts. In the year, KWS had external turnover of £88.6m and operating profit of £17m (2013: £83.1m and £11.9m respectively).

KWS continues to operate across the UK through its three principal projects:

- KWS Alpha in Northern Ireland (KWS Alpha Limited and Dalriada Water Limited);
- KWS Defence in England and Wales (KWS Defence Limited and KWS Estates Limited); and
- KWS Grampian in Scotland (KWS Grampian Limited and Aberdeen Environmental Services Limited).

KWS Alpha had a successful year, achieving its financial business plan in spite of volumes dispatched being significantly lower than anticipated due to a major improvement in leakage performance by its client Northern Ireland Water, and the economic downturn. Furthermore, the clean water residue stockpile was considerably reduced to 1600 tonnes, thus freeing-up additional on-site storage capacity. During the year a strategic resourcing review was completed, resulting in a revised operating model for the business to be adopted in 2014/15.

KWS Defence had an excellent year, outperforming its planned operating profit target by £1.1m through agreement of a rebased tariff with its client the Ministry of Defence, and delivering operating cost efficiencies. As the next step in developing strategic asset management, the company began the process of implementing a new work and asset management system.

KWS Grampian had a good year operationally and only narrowly missed achieving its operating profit target by £0.7m in spite of suffering exceptionally low rainfall over a six month period, since categorised as a one in a hundred year event by the Met Office. The renewable energy generated by the company's two CHP engines stationed at the main site in Aberdeen was better than the business planned at 60% utilisation. For the second year running the company outperformed its target for generation of third party activity, delivering additional turnover in excess of £1m.

Other activity in the year included the setting-up of KWS Retail, a new business to promote retail competition within the UK water industry on behalf of the Kelda Group. Furthermore, KWS continues to develop two new projects (anaerobic digestion for Edinburgh and Mid-Lothian council, and wind power for Yorkshire Water's operational site at Knostrop in Leeds). During the year KWS was selected as one of two bidders for the Invitation to Submit Final Tender stage to provide a new anaerobic digestion treatment and power facility for Cardiff Council's Organic Treatment Procurement. It also had planning applications approved to build a similar anaerobic digestion facility on a Yorkshire Water operational site at Knostrop, and a wind turbine and photo-voltaic scheme at Kelda Group's head office at Buttershaw in Bradford.

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

Loop Customer Services Management Ltd (Loop)

2013/14 was a good year for Loop, delivering outperformance in three key areas. Firstly, improvements to customer services were achieved by leading YW's customer service improvement plan. Secondly, YW main charges income exceeded expectations and Loop fulfilled a total billing and debt collection service. Thirdly, Health and Safety performance improved markedly.

Customer Service as measured by Ofwat's Company SIM points improved by five full points which is the single highest annual increase since the SIM mechanism was introduced. The enhancements to service which delivered this improvement included a £2m investment in the introduction of new customer service social media channels, increased proactive customer service, process improvements and more effective case management of customer issues.

Billing and income outperformed the plan due to increased water consumption by domestic customers over the hot summer and by commercial customers over the year which is indicative of improvements in the wider economy. Strong income generation activities including identifying under-billed properties and the new pro-active void management process continued being key to supporting the income performance.

Collections continued to be challenging due to the economic climate and was impacted on further by new government welfare reforms. Loop has continued to implement its industry leading debt collection and hardship strategies and work closely with credit referencing agencies to mitigate the impact of these external factors.

During the year Loop launched 'Safe Seven' which was a way to engage effectively with employees on Health and Safety and to engender a positive safety culture. This has been successful with a reduction in the number of incidents since its launch.

Loop continues to hold the Investors in People accreditation and Customer Service Excellence standard. YW and Loop were recognised at the WOW awards as best utility for customer services in 2013. Other award highlights included Sidra Ayaz a customer care manager at Loop winning the 'Young Professional of the Year' award at the European Call Centre and Customer Service Awards 2013.

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

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

Safe-Move

Safe-Move is a non-regulated trading arm of YW which provides property search information to solicitors, including information covering drainage and water services. House sales volumes in Yorkshire remained subdued and on a par with the previous year but with success in retailing search products over and above the core drainage and water search product, the business over achieved on its financial targets.

KeyLand Developments Ltd (KeyLand)

The property market improved somewhat during 2013/14 with Keyland's best residential sites selling for more than previously expected. However, many of Keyland's sites are in lower value locations, where there has been some improvement in market interest, but no discernible improvement in values.

The KeyLand business continues to focus on maximising the value of property assets released by Yorkshire Water.

The Aire Valley in Leeds remains the focus of KeyLand's commercial development activities. The main site has planning permission for a major distribution park and forms part of the Leeds City Region Enterprise Zone. KeyLand is also involved in a number of joint ventures that control strategic residential development sites around Leeds and which have improving prospects of being allocated for residential development.

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

The main risks to KeyLand are:

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

KeyLand will concentrate on securing an adequate supply of sites from Yorkshire Water, but will also consider promoting sites on behalf of other major landowners.

Other Companies

Kelda held a contract to provide sewerage services to the City of Bridgeport in Connecticut, US that terminated on 31 December 2013. The contract was loss making and an onerous contract provision of £14.4m is held to cover expected exit costs.

Preparations for exit are progressing, with the most significant outstanding item being closure of the pension scheme. The provision will be utilised as the final termination costs are settled and while the expected future costs are uncertain, management do not expect any material difference to the amounts provided.

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2014	Year ended 31 March 2013
	£m	£m
Operating profit before exceptional items and share of associates and joint ventures loss after tax	360.8	331.0
EBITDA	609.3	576.2

Operating results for the year

The results for the year show an operating profit before exceptional items and share of associates and joint ventures loss after tax of £360.8m (2013: £331.0m). Of this, £383.5m (2013: £350.5m) is generated by YW's regulated water business. Note 3 to the financial statements shows the profit split by segment.

Exceptional items for the year

Exceptional items comprise the following:

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Included in operating costs:		
Net gain in relation to pension benefit changes	**-**	22.5
	-	22.5
Included in finance income/(costs):		
Movement on fair value of index linked swaps	**298.2**	(297.6)
Movement on fair value of finance lease interest rate swaps	**5.9**	(3.8)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(0.3)**	(2.8)
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**(5.2)**	(2.2)
	298.6	(306.4)

IFRS 13 'Fair Value Measurement' has been applied with effect from 1 April 2013. Included in finance income and costs are fair value gains totalling £87.8m, which relates to the impact of incorporating own credit risk within the fair value of the derivative financial instruments. Own credit risk is calculated based on a comparison of the Groups ten year credit default swap values to their risk free or sovereign equivalents. This gain reflects the cumulative impact of changes in the Group's credit risk since executing these derivative financial instruments.

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in the retail price index (RPI) by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2014 resulted in a £1,446.4m provision (2013: £1,729.0m).

Of the year on year movement of £282.6m, a charge of £15.6m relating to RPI accretion has been recognised within finance costs and a credit of £298.2m (2013: £297.6m charge) has been recognised as an exceptional finance income. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met. Of the £298.2m credit disclosed above, £85.6m arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2014 resulted in a £15.7m liability (2013: £21.6m). The year on year decrease of the liability of £5.9m (2013: £3.8m increase) has been recognised as an exceptional finance income. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met. Of the £5.9m exceptional finance income, £0.6m arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance costs include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £0.3m charge (2013: £2.8m) to the income statement. Included in the £0.3m above is a charge of £0.9m relating to the fair value movement of the cross currency swaps and associated bonds and a credit of £0.6m that arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

Exceptional finance costs also include the fair value movement of fixed to floating interest rate swaps which were nominated as fair value through profit and loss on inception. These fair value interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £5.2m charge (2013: £2.2m) to the income statement. Included in the £5.2m above is a charge of £6.2m relating to the fair value movement of the fixed to floating interest rate swaps and the associated bonds and a credit of £1.0m that arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

During the year ended 31 March 2013 the Group, in co-operation with the pension scheme trustees, carried out a review of defined benefit pension plans with a view to reducing the level of risk in the scheme and ensuring its sustainability for the future. As a result of changes to the terms of the scheme made during the year a net benefit of £22.5m was recognised as exceptional income in 2012/13. There is no similar item in the year to 31 March 2014.

Capital structure

In June 2012 Kelda Finance (No. 2) Limited entered into a new £260m bank facility; £150m with a term of three years and £110m with a term of five years. The proceeds from this new facility were lent to Kelda Holdco Limited to enable it to repay the remaining balance on the Senior Holdco Facility.

In August 2012, Yorkshire Water Services Bradford Finance Limited raised a £250m Class A bond with a maturity of seventeen years, with the proceeds being lent to YW. In addition, in October 2012, YW extended the term of its £490m working capital and revolving credit facilities by a year to October 2017.

In February 2013, Kelda Finance (No. 3) PLC raised a £200m high yield bond with a maturity of seven years. The proceeds were lent to Kelda Finance (No. 2) Limited to enable it to repay all of the three year bank facility referred to above and a part of the five year facility.

Accounting policies

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

Revaluation of property, plant and equipment

The Group's infrastructure assets were valued internally at 31 March 2012. This valuation was incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve after deducting a provision for deferred tax. The revaluation during the year ended 31 March 2012 resulted in a net revaluation surplus of £813.0m (restated – see note 12 of the financial statements for more details). The directors believe the valuation recognised at 31 March 2012 continues to be materially correct at 31 March 2014.

The Strategic Report was approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on its behalf by:

Richard Flint
Chief Executive
14 July 2014

FINANCIAL KEY PERFORMANCE INDICATORS

Operating profit

Operating profit is disclosed in the income statement on page 53.

Net debt

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

Credit rating

The credit rating indicates YW'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)

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.

Definitions for Ofwat's financial and non-financial Key Performance Indicators for the water industry are available on their website, at:
http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

NON FINANCIAL KEY PERFORMANCE INDICATORS

Greenhouse gas (GHG) emissions

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 governance

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

Kelda Eurobond Co Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to the Kelda Holdings Limited group is detailed in the Annual Report and Financial Statements of that company, a copy of which is available from the company secretary. Their report includes details, inter alia, of the remuneration committee, audit committee, corporate social responsibility committee and internal control.

The board of directors

The Board held meetings when it is considered appropriate or where business needs required. The Board held seven meetings during the period.

At the end of the year, the Board comprised a non-executive chairman, two executive directors, eight shareholder non-executive directors, plus one alternate director. Aparna Narian was appointed as a non-executive director on 1 April 2014.

The table below shows the number of meetings of the Board attended by each director out of possible attendances. The attendances of Hamish Mackenzie as alternate have not been included where Jane Seto for whom he acts as alternate was present.

	Board
Juan Angoitia	0/1
Scott Auty	6/7
Stuart Baldwin	4/7
Liz Barber	7/7
Paul Barr	5/7
Vicky Chan	1/3
J-G Duthie-Jackson	-
Milton Fernandes	5/7
Richard Flint	7/7
Holly Keoppel	5/7
Hamish Mackenzie	2/3
Aparna Narain	-
Michael Osborne	6/7
Jane Seto	3/4
Kevin Whiteman	6/7

Internal control and risk management

An on-going 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. There is clear allocation of management responsibility for risk identification, recording, analysis and control;
- Risk assessment is completed with the use of strategic risk impact and probability scales and results plotted to enable prioritised action;
- Risks are monitored for any increases or decreases in risk position taking into account internal and external factors and appropriate treatment plans in place. All movements in strategic risk position are reported to the executive management team known as Kelda Management Team (KMT) monthly;
- KMT meet quarterly to review the company's strategic risk position in detail and carry out a PESTLE analysis (political, economic, social, technological, legal and environmental). This acts as a prompt for KMT to discuss, assess and develop action plans relating to external trends, issues or opportunities;
- Anthony Rabin as the chairman of the Group audit committee reports to the Kelda Holdings Ltd board;
- 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. An update on the risk and assurance position is provided at each audit committee meeting.

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

During the reporting year, the Group audit committee reviewed the effectiveness of the risk management process, the effectiveness of internal audit and the effectiveness of the external audit process on behalf of the company. The committee has also separately considered the control environment and control activities which the Board can rely on for disclosures in the Annual Report.

In addition to the process outlined above, the Group is also subject to: independent external audits which were reported to the executive team and the committees; 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 directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2014. The Directors' Report should be read in conjunction with the Strategic Report.

Financial results for the year

The profit for the year after tax was £341.4m (2013: £210.3m loss). The Company did not pay any dividends during the year to its parent company (2013: £nil).

Business review

A review of the development and performance of the business of the Group, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the Company are set out in the Strategic Report on pages 1 to 36.

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

Principal activities

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

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

Directors

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

Juan Angoitia	(appointed 30 May 2013, resigned 30 August 2013)
Scott Auty	
Stuart Baldwin	
Paul Barr	
Liz Barber	
Vicky Chan	(appointed 27 September 2013)
J-G Duthie-Jackson	(resigned 21 May 2013)
Milton Fernandes	
Holly Keoppel	
Aparna Narain	(appointed 1 April 2014)
Michael Osborne	(appointed 31 January 2013)
Richard Flint	
Jane Seto	
Kevin Whiteman	
Hamish Mackenzie	(alternate for Jane Seto)

Biographies

Scott Auty. Appointed to the board as a non-executive director on 10 December 2010. Scott is a director of Deutsche Asset and Wealth Management, a division of Deutsche Bank. He is responsible for the origination of infrastructure investment opportunities and managing the valuation, due diligence and execution process for new acquisitions, as well as the ongoing management of the acquired assets. Prior to Deutsche Asset and Wealth Management, he was at NM Rothschild advising on a range of corporate finance and M&A transactions in the infrastructure sector.

Stuart Baldwin. Appointed to the board as a non-executive director from 3 March 2008. Stuart is the Global Head of Infrastructure for GIC, Singapore's sovereign wealth fund. Stuart has overall responsibility for developing GIC's global infrastructure business. Prior to joining GIC in 2002, Stuart was director, Strategic Investments of SingTel, based in Singapore. From 1992-1999, he was at London-based strategy consultancy, The COBA Group. Stuart is currently also a non-executive director of Heathrow, the UK airports group, and TIGF, a French gas transmission and storage business.

Paul Barr. Appointed to the board as a non-executive director from 27 January 2012. Paul is a Vice President in the Infrastructure Group of GIC, Singapore's sovereign wealth fund. From 1997 to 2012, Paul previously worked at Challenger Limited, Macquarie Bank, Ernst & Young, Arthur D Little and Wood Mackenzie. He was also previously a non-executive director of Welcome Break, the UK motorway services business. Paul is a member of the Institute of Chartered Accountants of Scotland, a CFA Institute Charterholder and was previously a member of the Chartered Institute for Securities and Investment.

Elizabeth (Liz) Barber. Appointed to the board on 9 December 2010. Appointed as Group finance and regulation director to the board of Kelda Holdings Limited in November 2010. Liz joined the Group 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.

Vicky Chan. Appointed to the board as a non-executive director on 27 September 2013. She is Chief Operating Officer of Citi Infrastructure Investors, a business unit of Citigroup Alternative Investments LLC, a wholly owned subsidiary of Citigroup Inc. Vicky is also a director of DP World Australia Limited and Itínere Infraestructuras, S.A..

Milton Fernandes. Appointed to the board as a non-executive director from 7 December 2012. Milton is a member of the Executive Committee of Infracapital, the infrastructure equity arm of M&G Investments. Milton has over 15 years' experience in infrastructure investment. Prior to Infracapital, Milton was finance director of a specialist infrastructure PFI/PPP investor, where he was responsible for all aspects of finance and fund administration. He also holds board positions on a number of infrastructure portfolio companies in the health sector. Milton is a fellow of the Institute of Chartered Accountants in England & Wales.

Holly Koeppel. Appointed to the board as a non-executive director on 25 March 2010. She is Head of Citi Infrastructure Investors, a business unit of Citigroup Alternative Investments LLC, a wholly owned subsidiary of Citigroup Inc. Holly is chair of DP World Australia Limited and a director of Reynolds American Inc., Integrys Energy Group, Inc., Itínere Infraestructuras, S.A. and Vantage Airports Group Ltd. Holly has previously held roles in American Electric Power Company Inc, including Chief Financial Officer for three years and Executive Vice President for AEP Utilities East for three years. Prior to that she also held roles at Consolidated Natural Gas.

Aparna Narain. Appointed to the board as a non-executive director on 1 April 2013. Aparna is a Vice President of Deutsche Asset and Wealth Management, a division of Deutsche Bank. She is responsible for identifying and analysing infrastructure investment opportunities, the implementation of transactions, and the ongoing management of acquired businesses. Prior to Deutsche Asset and Wealth Management, she worked for Citigroup, advising clients in the power and utilities sectors on a range of fixed income financings.

Michael Osborne. Appointed to the board as a non-executive director on 31 January 2013. He is an Investment Principal within Citi Infrastructure Investors, a business unit of Citigroup Alternative Investments LLC, a wholly owned subsidiary of Citigroup Inc.

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

Jane Seto. Appointed to the board as a non-executive director on 10 December 2010. Jane is a managing director of Deutsche Asset and Wealth Management, a division of Deutsche Bank, and is Portfolio Manager for the RREEF Pan-European Infrastructure Fund. She is responsible for the management of the Fund's portfolio businesses, as well as the ongoing expansion and development of Deutsche Bank's infrastructure's business in Europe. Jane serves as a board director to numerous joint venture and portfolio investment companies. Prior to Deutsche Asset and Wealth Management, she spent 12 years in various roles at Bechtel Enterprises Inc., the infrastructure finance and development arm of Bechtel Group Inc.

Kevin Whiteman. Appointed to the board on 19 September 2008. Kevin is chairman of Kelda Holdings Limited (formerly 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 joined Yorkshire Water in 1997 as business director for waste water, and became managing director in April 2000. He previously held senior positions with British Coal. He was appointed to the board of NG Bailey Ltd as a non-executive director on 1 April 2013 and assumed the role of non-executive chairman of that company on 25 July 2013. He is also a non-executive director on the board of Severfield Rowen plc.

Hamish Mackenzie. Appointed to the board as an alternate non-executive director for Jane Seto on 1 June 2012. Hamish is a managing director of Deutsche Asset and Wealth Management, a division of Deutsche Bank, and is head of the European infrastructure equity and debt businesses. Prior to Deutsche Asset and Wealth Management, Hamish worked in Deutsche Bank's corporate and investment banking division where he was a specialist in the transport and infrastructure sector, advising corporate and government clients on mergers, acquisitions and capital raisings.

The company had directors' and officers' liability insurance in place throughout the financial year and up to the date of approval of the financial statements. By virtue of the articles of association, the company had also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Shareholders

Wharfedale Acquisitions I LLP, which has a 10% shareholding in the Group is an entity jointly owned by Infracapital Partners LP (an infrastructure fund managed by M&G Investments) and Prudential Assurance Company Limited. All these entities are ultimately controlled by Prudential plc, a UK listed insurer.

Citi Infrastructure Investors manages a 30.3% shareholding in the Group that is held through three English limited partnerships: Citi Infrastructure Partners, LP; CIP UK Water, LP; and CIP UK Water II, LP. The limited partners include sovereign funds, pension funds and insurers.

GIC has a 26.3% shareholding in the Group and is a leading global investment firm with well over US$100 billion in assets under management. Established in 1981, GIC manages Singapore's foreign reserves and is uniquely positioned for long-term and flexible investments across a wide range of asset classes. GIC has investments in over 40 countries. Headquartered in Singapore, GIC employs over 1,200 people across ten offices in key financial cities worldwide.

State Infrastructure Holdings 1 Pty Ltd is managed by Deutsche Australia Limited on behalf of SAS Trustee Corporation and has a 10% shareholding in the Group. SAS Trustee Corporation is a pension fund for government employees of the state of New South Wales, Australia.

Infrastructure Saxon Sarl is owned by the RREEF Pan-European Infrastructure Fund, which is managed by Deutsche Alternative Asset Management (UK) Limited ("DeAAM"). DeAAM is part of Deutsche Asset and Wealth Management, a division of Deutsche Bank, which has €934 billion of assets under management (as of 31 March 2014) and which has a 23.4% shareholding in the Group.

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £8.7m was committed to research and development including £8.4m on non-current assets.

Valuation of assets

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

Certain categories of the Group's land and buildings were valued by independent qualified valuers in March 2014. As a result of the valuation carried out at 31 March 2014 the carrying value of land and buildings was increased by £17.2m and the resulting revaluation surplus taken to the revaluation reserve together with an associated deferred tax impact of £3.4m. As a result of the same revaluation certain properties were impaired and an impairment loss of £0.9m was recognised in the profit and loss.

Further details are provided in note 12 to the financial statements.

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

Diversity and human rights

The Group is working to ensure a gender balanced workplace and is actively engaged in the Pearls Programme to positively influence the national gender imbalance. Below is a gender breakdown for the Group. Figures show the total number of employees on 31 March 2014.

	Number of employees	
	Male	Female
Directors	11	5
Senior managers	28	5
Total employees	2,207	1,065

The Group policy on human rights recognises international human rights as set out in the International Bill of Human Rights, and the principles described in the UN Global Compact. The policy was approved as a Kelda Group policy in 2013 and can be found at: http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf.

The successful implementation of the Human Rights Policy is heavily influenced by the cooperation and support of the supply chains. Accordingly, the Group actively manages and monitors the supply chains to ensure working practices are consistent with the policy.

Employees and employment policies

The Group continues to strive to create a positive working environment for all colleagues and in developing open and trusted relationships. The Group values colleague involvement and engagement at all levels, recognising that everyone in the business has a contribution to make and is a potential source of innovation and change. The Group Values set the framework for how we expect colleagues and partners to behave with each other, with customers and with external stakeholders.

Great communications lie at the heart of engaging with colleagues. The Group recognise the need for, and benefits of, providing employees with information on matters of concern to them as employees, and doing so in a planned manner, using a range of channels. The Group intranet ensures that all employees have access to key information in a consistent manner. In addition there is a continued emphasis on a 'face to face first' approach and two-way channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and the directors. Business plan cascades take place at the beginning of each year, with common information available to all colleagues and more detailed business unit information available by function, for discussion in teams. Further updates are provided throughout the year so that colleagues are kept informed about factors of an economic and financial nature which impact on the company performance. At a very local level, team "hub" meetings provide the opportunity for around 900 operational employees to talk about team performance and problem resolution on a regular basis, in person with each other. Quarterly employee surveys are undertaken throughout the company, using an online survey – "Post Your Views". All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

To further promote successful employee relations, the Group demonstrates its commitment to effective and two way communication through its information and consultation framework. Collection bargaining arrangements are in place with the Group's recognised trade unions – UNISON, GMB and Unite. In addition, Communication and Consultation forums take place across the Group, comprising elected union and non-union employees meeting regularly with directors and senior managers. At these meetings the Group shares performance information, discusses health and safety issues as well as providing an opportunity for two-way face to face dialogue in which employees views can be sought and then taken into account in making decisions which affect them.

The Group is committed to providing a diverse and inclusive working environment that reflects its customer base. This is integral to the delivery of the Strategic Business Objectives and Vision: taking responsibility for the water environment for good. The Group's diversity and inclusion policy promotes equality of opportunity for all employees and stakeholders, ensuring that discrimination of all forms is avoided, including but not limited to discrimination on the grounds of: gender; pregnancy; age; race; colour; nationality; ethnic and national origin; sexuality/sexual orientation; religion and belief; disability; marital status; membership of a trade union; and part-time or fixed term employee status. In all areas of employment, including recruitment, training, career development and promotion, the company do not treat less favourably any applicant for employment or current employee by conditions or requirements which cannot be justified.

Throughout 2013/14 a director-sponsored Diversity and Inclusion Working Group actively drove diversity and inclusion matters, with a remit to ensure that the diversity and inclusion policy is reviewed regularly and properly integrated in the business. By ensuring that diversity and inclusion principles underpin all of our work and the services provided, we are supported in maintaining sector leading performance.

The Group aims to attract, select, develop and retain the best talent to meet the needs of the business at all times. There is a strong commitment to understanding future skills requirements and ensuring that plans are in place to meet our evolving needs. Particular emphasis is to be given to developing the pipeline of technical talent and to responding to key developments within the industry that will create the need for the acquisition and development of new skills not previously recruited. The Group's approach to talent management is fully inclusive and creates a framework to discuss aspirations, skills and development needs at all levels. This activity will be developed further in the coming months and years with the aim of retaining critical skills within the organisation, by enabling greater progression of talent internally.

The Group places great emphasis on enhancing business performance by maximising individual, team and organisational capability through the development of safety, technical, behavioural and leadership skills. Leadership skills are recognised and developed using our 'Responsible Leader' framework which focuses on 'Knowing the World of Water'; 'Operational Excellence'; and 'Personal Leadership'. A wide range of development tools are provided, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. An example of a current tool being used is the MySkills framework, which has already assessed the competencies required in over 30 key roles to ensure that the company builds appropriate development programmes and better understand capability gaps.

The largest recent learning and development investment is in the delivery of H&S training to ensure colleagues are safe and capable in performing in their role. The Group has a diverse range of H&S programmes including managing dangerous substances, fire safety and electrical and mechanical H&S. Strong partnerships across the business have been built to design some technical training solutions, including a unique industry first for the CO_2llaborate Energy Optimisation Programme, to improve the skills of about 600 colleagues. This will play an important contribution in reducing energy consumption and associated financial and environmental costs.

The Group recognises the challenges of delivering quality training quickly and cost effectively across the region, and also being able to demonstrate improvement in competence rather than just attending training. To meet this challenge the company has invested in an eLearning platform that will increase the access of L&D across the company.

As well as developing a talent management culture to help drive business success, the Group has several resourcing solutions which are well regarded. The Group's award winning graduate recruitment programme has a strong reputation and has been recognised at both regional and national levels. In 2011 and 2012 we were named as the graduate employer of choice in the private sector in Yorkshire. In addition, the Guardian newspaper named the company in its Top 10 Graduate Employers for Energy and Utilities for the past three consecutive years following its biggest ever survey of UK graduates. The Group's apprentice training scheme is also well established. Launched in 2010, the scheme currently has 58 apprentices in various areas of the business. Current plans will increase that number further in 2015.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference while feeling valued for their contribution. The Group is committed to rewarding the right performance and provide salary and benefits packages 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

It is essential that the Group work to prevent harm and protect health across all stages of its business operations, environments and communities.

The drive for continual improvement is supported by an Occupational Health & Safety Management System (OHSMS). This enables the Group to enhance its health and safety performance and to maintain a clear focus on meeting the needs of its people, stakeholders, customers and members of the public. This is at the heart of the company approach.

The Group:

- Complies with duties under the Health and Safety at Work etc. Act 1974 and all other relevant legislation, and where reasonably practicable seeks to exceed legislative requirements;
- Thoroughly identify hazards and risks and implement appropriate and effective controls to eliminate or reduce them. Nothing is so important that time cannot be taken to do it safely;
- Ensure the competence of all employees by providing suitable training, monitoring, supervision and leadership to ensure that our OH&S policies and procedures are complied with and standards are maintained;
- Ensure the competence of all suppliers, partners and contractors who work on behalf of the company by assessing and monitoring their OH&S management systems and performance;
- Ensure that wherever and whenever internal or external colleagues are at work that the risks to their health and safety are managed down to a level as low as is reasonably practicable. This will also apply to members of the public visiting areas of rural estates that are open to public access;
- Manage all business, activities, operations and assets in a manner which seeks to eliminate injuries, incidents and ill health and minimise any consequences that might arise in the event of any incident;
- Continually review, challenge and set OH&S objectives and performance through the business planning cycle; and
- Aim to meet all of the above promises at an affordable cost.

The OHSMS is designed to be compliant with the standards and expectations of OHSAS18001 and also the HSE's HSG65. It consists of an integrated framework linking the following key system elements:

- Clear understanding of and compliance with applicable health and safety legislation;
- Concise corporate policy statement outlining our commitment to continually improve;
- Clear management standards to provide governance and assurance that risk controls are identified, established and effective;
- Detailed management procedures to address specific legislative and business risks;
- Continual risk identification, assessment and escalation processes from task / activity risk through to corporate strategic risk;
- Provision of adequate and competent resources and supervision;
- Safe implementation of work activities through planning, effective risk controls and compliance with safe working and business procedures such as EMS, QMS etc.; and
- Performance evaluation of the system in action through KPI measurement, inspection and audit and continual improvement through management review and corrective action.

In essence, the management system is a Plan – Do – Check – Act continuous improvement cycle and is underpinned by the following principles:

- Strong and active leadership from the top down – visible, active commitment; effective 'downward' communications systems and management structures and integration of good health and safety management with business decisions.
- Employee engagement and involvement – promoting safe and health conditions, effective 'upward' communication and providing high quality training.
- Assessment and review – identifying and managing health and safety risks; accessing and following competent advice and monitoring, reporting and reviewing performance.

The OHSMS is designed to make it easy for leaders to integrate health and safety requirements and expectations into their day to day routine business activities and in return be successful in delivering excellent business performance through operational excellence, employee engagement and above all safe and healthy people and places to work. It is a live and dynamic system and is continually reviewed and improved as the company understands and learns from its business risks, performance, incidents, injuries, inspections and audits.

Political donations

The Group 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 Group's activities at the main political parties' annual conferences.

As part of its stakeholder engagement programme the Group incurred expenditure of £16,000 in such activities.

Independent auditors

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

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

Financial instruments

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

Future developments

Future events are dealt with as part of the Strategic Report on pages 1 to 36.

Annual general meeting

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

Going concern

After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has £650.3m of undrawn committed borrowing facilities (note 16) and has a robust business model with positive cash flows projected for the next 25 years (note 10). For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

Each director in office at the date of this report confirms that, to the best of their knowledge:

- The accounts give a true and fair view of the assets, liabilities, financial position and profit of the company: and

- The Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

Each director in office at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

- each director has taken all the steps as he or she ought to 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.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The directors consider that this annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders and other stakeholders to assess the company's performance, business model and strategy.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As it is entitled to do by the Companies Act 2006, the board has chosen to set out in the Strategic Report the following matters required to be disclosed in the Director's Report in respect of the year ended 31 March 2014;

(a) the use of financial instruments;
(b) particulars of any important events affecting the company which have occurred since the end of the financial year;
(c) an indication of likely future developments in the business of the company;
(d) an indication of the activities of the company in the field of research and development; and
(e) a breakdown of the company's greenhouse gas emissions.

The directors' report was approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on its behalf by:

Richard Flint , Director
14 July 2014

Company secretary: Stuart McFarlane

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

Independent auditors’ report to the members of Kelda Eurobond Co Limited

Report on the Group financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group’s affairs as at 31 March 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Group financial statements (the “financial statements”), which are prepared by Kelda Eurobond Co Limited, comprise:

- the Group balance sheet as at 31 March 2014;
- the Group income statement and Group statement of comprehensive income/(loss) for the year then ended;
- the Group cash flow statement for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report and financial statements (the “Annual Report”) to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 49, 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 ISAs (UK & 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.

Other matters

We have reported separately on the Company financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2014.

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2014

Kelda Eurobond Co Limited
Group income statement
for the year ended 31 March 2014

	Note	2014 £m	2013 (restated) £m
Revenue	3	**1,063.3**	1,024.3
Operating costs before exceptional items	4	**(702.5)**	(693.3)
Exceptional items	5	**-**	22.5
Total operating costs		**(702.5)**	(670.8)
Operating profit before share of associates and joint ventures		**360.8**	353.5
Share of associates' and joint ventures' loss after tax	13	**(0.1)**	(0.2)
Operating profit from continuing operations	3	**360.7**	353.3
Finance income before exceptional items	7	**20.5**	17.9
Exceptional finance income	5	**304.1**	-
Total finance income		**324.6**	17.9
Finance costs before exceptional items	7	**(366.6)**	(377.4)
Exceptional finance costs	5	**(5.5)**	(306.4)
Total finance costs		**(372.1)**	(683.8)
Profit/(loss) from continuing operations before taxation		**313.2**	(312.6)
Tax credit	8	**28.2**	102.3
Profit/(loss) for the year attributable to owners of the parent		**341.4**	(210.3)

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

The restatement of the prior year arises from the retrospective application of IAS 19 ‘Employee benefits’ (revised) - see note 20 for further details.

Kelda Eurobond Co Limited
Group statement of comprehensive income/(loss)
for the year ended 31 March 2014

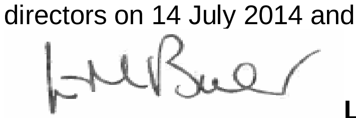
	Note	**2014** **£m**	2013 (restated) £m
Profit/(loss) for the year		**341.4**	(210.3)
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of land and buildings:			
Gains on revaluation of land and buildings before taxation	12	**17.2**	-
Taxation	8	**(3.4)**	-
		13.8	-
Remeasurements of post-employment benefit obligations:			
Remeasurements before taxation	20	**64.3**	(87.7)
Taxation	8	**(20.2)**	20.1
		44.1	(67.6)
Items that may be subsequently reclassified to profit or loss:			
Gains/(losses) on hedges taken to equity:			
Gains/(losses) on hedges taken to equity before taxation		**10.6**	(3.7)
Taxation	8	**(3.3)**	0.5
		7.3	(3.2)
Taxation on other items taken directly to comprehensive income/(loss)	8	**39.6**	16.5
Other comprehensive income/(loss) for the year, net of tax		**104.8**	(54.3)
Total comprehensive income/(loss) for the year		**446.2**	(264.6)

The restatement of the prior year arises from the retrospective application of IAS 19 ‘Employee benefits’ (revised) - see note 20 for further details.

Kelda Eurobond Co Limited
Group balance sheet
as at 31 March 2014

	Note	**2014** **£m**	2013 £m
Non-current assets			
Intangible assets	10	**1,871.9**	1,872.7
Financial assets	11	**162.6**	168.6
Property, plant and equipment	12	**6,628.0**	6,489.3
Investments in associated undertakings and joint ventures	13	**1.4**	1.2
Loans to associated undertakings and joint ventures	13	**9.9**	9.1
Trade and other receivables	15	**73.3**	-
		8,747.1	8,540.9
Current assets			
Inventories	14	**1.1**	1.5
Trade and other receivables	15	**191.2**	185.7
Financial assets	22	**-**	19.0
Cash and cash equivalents	16	**75.6**	27.2
Short term deposits	16	**2.7**	60.3
		270.6	293.7
Total assets		**9,017.7**	8,834.6
Current liabilities			
Trade and other payables	17	**(492.1)**	(496.7)
Deferred grants and contributions on depreciated assets		**(2.8)**	(2.9)
Tax liabilities		**(6.3)**	(15.4)
Borrowings	16	**(292.3)**	(280.4)
Financial liabilities	22	**(5.7)**	-
		(799.2)	(795.4)
Non-current liabilities			
Borrowings	16	**(5,475.2)**	(5,380.0)
Trade and other payables	17	**(58.9)**	(64.2)
Financial liabilities	22	**(1,440.9)**	(1,702.1)
Deferred grants and contributions on depreciated assets		**(50.8)**	(53.1)
Post – employment benefits deficit	20	**(93.0)**	(158.4)
Provisions for other liabilities and charges	18	**(22.8)**	(21.5)
Deferred income tax liabilities	19	**(512.0)**	(541.3)
		(7,653.6)	(7,920.6)
Total liabilities		**(8,452.8)**	(8,716.0)
Net assets		**564.9**	118.6
Equity attributable to owners of the parent			
Ordinary shares	21	**750.0**	750.0
Hedging reserve		**(33.9)**	(41.3)
Revaluation reserve		**13.8**	844.8
Share-based payment reserve		**5.2**	5.2
Accumulated losses		**(170.2)**	(1,440.1)
Total equity		**564.9**	118.6

The financial statements on pages 53 to 117 were approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on its behalf by:



Liz Barber, Director

Registered Number: 06433768

Kelda Eurobond Co Limited
Group statement of changes in equity
for the year ended 31 March 2014

	Ordinary shares £m	Hedging reserve £m	Revaluation reserve £m	Share-based payment reserve £m	Accumulated losses £m	Total equity £m
At 1 April 2012	750.0	(38.0)	852.1	5.2	(1,184.6)	384.7
Loss for the year	-	-	-	-	(210.3)	(210.3)
Credit to income statement for surplus depreciation	-	-	(23.8)	-	23.8	-
Other movements	-	-	-	-	(1.5)	(1.5)
Total included in the Group statement of comprehensive income	-	(3.3)	16.5	-	(67.5)	(54.3)
At 1 April 2013 (restated)	750.0	(41.3)	844.8	5.2	(1,440.1)	118.6
Profit for the year	-	-	-	-	341.4	341.4
Reduction in capital	-	-	(844.8)	-	844.8	-
Other movements	-	-	-	-	0.1	0.1
Total included in the Group statement of comprehensive income	-	7.4	13.8	-	83.6	104.8
At 31 March 2014	**750.0**	**(33.9)**	**13.8**	**5.2**	**(170.2)**	**564.9**

A reduction in capital of a subsidiary in the year ended 31 March 2014 resulted in the transfer of £844.8m of the revaluation reserve above to accumulated losses. Had there been no transfer made, the carrying value of the revaluation reserve at 31 March 2014 would be £874.4m (2013: £844.8m). The revaluation surplus is classified as fully distributable to the owners of the parent.

The restatement of the prior year arises from the retrospective application of IAS 19 ‘Employee benefits’ (revised) - see note 20 for further details.

Kelda Eurobond Co Limited
Group cash flow statement
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities	24	**604.8**	575.3
Income tax received		**2.5**	15.1
Interest paid		**(251.5)**	(247.0)
Net cash generated from operating activities		**355.8**	343.4
Cash flows from investing activities			
Interest received		**16.7**	16.4
Loans granted to parent company		**(69.5)**	-
Increase in loans to associates and joint ventures		**(0.7)**	(4.3)
Proceeds on disposals of property, plant and equipment		**7.1**	3.6
Purchases of property, plant and equipment		**(384.0)**	(390.0)
Capital grants and contributions		**11.9**	11.9
Net cash used in investing activities		**(418.5)**	(362.4)
Cash flows from financing activities			
Borrowings raised (net of fees)		**129.8**	833.9
Repayment of loan to parent company		**(17.2)**	(164.8)
Repayments of borrowings		**(50.8)**	(605.6)
Repayment of obligations under finance leases and hire purchase agreements		**(8.3)**	(24.0)
Net cash generated from financing activities		**53.5**	39.5
Net (decrease)/increase in cash and cash equivalents		**(9.2)**	20.5
Cash and cash equivalents at the beginning of the year		**87.5**	67.0
Cash and cash equivalents at the end of the year	16	**78.3**	87.5

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2014 were authorised for issue by the board of directors on 14 July 2014 and the balance sheet was signed on the board's behalf by Liz Barber, Director of Finance and Regulation. Kelda Eurobond Co Limited is a limited company incorporated and domiciled in England and Wales.

2. Accounting policies

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

Basis of accounting
The consolidated financial statements of Kelda Eurobond Co Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the Group for the year ended 31 March 2014.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 67 to 69.

Basis of consolidation
The Group financial statements consolidate the financial statements of Kelda Eurobond Co Limited and its subsidiaries (see note 27). The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies
On an individual company basis, individual transactions denominated in foreign currencies are translated into functional currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement.

2. Accounting policies (continued)

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

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

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

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

Net operating costs
Net operating costs include the following:

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

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

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

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

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

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

Useful economic lives are principally as follows:

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

2. Accounting policies (continued)

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

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

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

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Prior to this date the Group recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23 ‘Borrowing costs’.

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

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

Accounting for leases
Finance leases
Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised, at the lower of the fair value of the leased property and the present value of future lease payments, in property, plant and equipment and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the income statement over the shorter of the estimated useful life and the term of the lease. If the operational life of an asset is longer than the lease term, and the agreement allows an extension to that term, the asset may be depreciated over its operational life. The capital element of lease payments reduces the obligation to the lessor and the interest element is charged to the income statement over the term of the lease in proportion to the capital amount outstanding. Any arrangement fees or other direct costs incurred on a finance lease are capitalised and amortised over the length of the lease.

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

Provisions
Provision is made for self insured claims incurred but not reported, contracts which are considered onerous, accumulated losses related to associated undertakings and other known liabilities which exist at the year end as a result of a past event.

2. Accounting policies (continued)

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

The service concession contracts of the Group have fixed revenue streams and the related assets were therefore classified as financial assets, in addition to income streams conditional upon performance, where the right under contract has been classified as an intangible asset.

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

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

Trade and other receivables
Trade receivables are initially recognised at fair value, and subsequently remeasured at amortised cost, net of any allowance for impairment.

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

Trade and other payables
Trade payables are initially recognised at fair value, and subsequently remeasured at amortised costs.

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at either;

(i) amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs; or
(ii) fair value at the measurement date. The movement in the fair value of the loan or borrowing is recognised in the income statement. The fair values of the borrowings are determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date.

2. Accounting policies (continued)

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or (2) cash flow hedges.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge
The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement. In the event the hedged item is no longer expected to occur or the hedge relationship ceases to be effective, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative are immediately recognised in the income statement.

Employee benefits

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

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

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

2. Accounting policies (continued)

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

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

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

Equity settled share based payments
Previously, Kelda Group Limited (formerly plc) operated a savings related share option scheme under which options were granted to employees. The fair value of options granted in exchange for employee services rendered was recognised as an expense in the income statement with a corresponding credit to equity.

The total amount expensed over the vesting period was determined by the fair value of the option at the date of the grant. The fair value of the option calculated was determined by use of mathematical modelling including the Black Scholes option pricing model.

The Group re-assesses its estimate of the number of options that are expected to become exercisable at each balance sheet date. Any adjustments to the original estimates are recognised in the income statement. No expense is recognised for awards that did not ultimately vest, except for awards where vesting was conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition was satisfied, provided that all other performance conditions are satisfied.

The scheme was closed following the acquisition of Kelda Group Limited (formerly plc) by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity with members choosing whether to continue contributing. For any member who has taken that option, charges to the income statement will continue until the maturity of the scheme. For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme.

Share capital
Ordinary shares are classified as equity.

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

2. Accounting policies (continued)

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

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

The directors' report details the activities of each segment.

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

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

Fair value estimation
The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cashflows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cashflows. The fair value calculations have been adjusted to incorporate own and counter-party credit risk.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

- Assumptions relating to the retirement benefit deficit

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/ (income) for pensions include the discount rate of 4.55% (2013: 4.40%). Any changes in these assumptions will impact the carrying amount of the pension obligation.

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

2. Accounting policies (continued)

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

- Goodwill impairment testing

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

In reviewing goodwill for impairment the Group applied a discount rate of 6.25% (2013: 6.00%) and a long term inflation rate of 2.75% (2013: 2.75%) to the expected future cash flows of the Group. Inflation is deemed to be a key driver of revenue and costs for the Group. On this basis the recoverable amount of goodwill exceeds its carrying amount by £761.8m (2013: £2,016.7m). Were the discount rate used to increase by 0.6% (2013: 1.5%) from management's estimates, the headroom available in the goodwill impairment review would be eliminated. Were the long term inflation rate to decrease by 0.6% (2013: 1.5%) from management's estimates, the headroom available in the goodwill impairment review would be eliminated. Further details relating to goodwill are disclosed in note 10 of the financial statements.

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on pages 61 to 62 of the financial statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. The Group is required to evaluate the carrying value of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

- Onerous contracts provision

The Group has made a provision in relation to expected losses from the contract to provide sewerage services to the City of Bridgeport in Connecticut, US that terminated in 2013. The provision will be utilised as the final termination costs are settled and while the expected future costs are uncertain, management do not expect any material difference to the amounts provided.

- Provision for doubtful debts

At each balance sheet date, the Group evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results

2. Accounting policies (continued)

positively or negatively. As at 31 March 2014 current trade receivables were £125.4m (2013: £114.4m), before provision for impairments.

- Taxation

The corporation tax provision of £6.3m (2013: £15.4m) reflects management's estimation of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed by Her Majesty's Revenue and Customs.

New standards and interpretations

The following standards have been adopted by the Group for the first time for the financial year beginning 1 April 2013 and have a material impact on the Group:

- IFRS 13 'Fair value measurements', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. Application of this standard by the Group has resulted in a £87.8m credit to finance income/(costs) as disclosed in note 5.

The following standards have been adopted by the Group for the first time for the financial year beginning 1 April 2013 and do not have a material impact on the Group:

- IAS 19 'Employee benefits' (revised). The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. See note 20 for the impact on the financial statements.
- Amendment to IAS 1 'Financial statement presentation' regarding other comprehensive income.

The following standards, interpretations and amendments to existing standards are effective for annual periods starting on or after 1 January 2014 and have not been early adopted by the Group:

- Amendment to IAS 32 'Financial instruments presentation - offsetting financial assets and liabilities'
- Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities
- Amendments to IAS 36 'Impairment of assets'
- Amendment to IAS 39 'Financial instruments: Recognition and measurement'
- Amendments to IFRS 10, 11 and 12 on transition guidance
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosures of interests in other entities'
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associates and joint ventures'
- IFRIC 21 'Levies'

2. Accounting policies (continued)

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

- Amendment to IAS 19 'Employee benefits'
- Amendments to IFRS 9 'Financial instruments – regarding general hedge accounting'
- IFRS 9 'Financial instruments – classification and measurement'
- Amendment to IFRS 7 'Financial instruments disclosures – offsetting financial assets and liabilities'
- IFRS 14 'Regulatory deferral accounts'

The Group is still considering the implications of applying these standards and interpretations to the Group's financial statements.

3. Segmental information

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

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

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

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

3. Segmental information (continued)

Year ended 31 March 2014

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total continuing £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	973.5	175.9	12.3	6.2	1,167.9	(12.1)	1,155.8
Inter-company revenue	(3.5)	(88.8)	(0.2)	-	(92.5)	-	(92.5)
External revenue	**970.0**	**87.1**	**12.1**	**6.2**	**1,075.4**	**(12.1)**	**1,063.3**
Depreciation	(270.3)	(14.8)	(0.3)	36.1	(249.3)	-	(249.3)
Amortisation of deferred grant income	2.9	-	-	-	2.9	-	2.9
Other operating costs	(319.1)	(54.1)	(12.9)	(82.1)	(468.2)	12.1	(456.1)
	383.5	**18.2**	**(1.1)**	**(39.8)**	**360.8**	**-**	**360.8**
Less associates' and joint ventures' interest					(0.1)	-	(0.1)
Group operating profit from continuing operations					**360.7**	**-**	**360.7**
Investment income							20.5
Finance costs							(366.6)
Exceptional items in finance income							304.1
Exceptional items in finance costs							(5.5)
Profit from continuing operations before taxation							**313.2**
Tax credit							28.2
Profit for the year attributable to owners of the parent							**341.4**

3. Segmental information (continued)

Year ended 31 March 2014

	UK regulated water services	UK service operations	Property development	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m
Assets	12,500.8	353.8	42.8	(3,959.4)	8,938.0
Investments in associates and joint ventures accounted for by the equity method	-	-	1.4	-	1.4
Liabilities	(5,382.1)	(188.2)	(19.7)	2,904.7	(2,685.3)
Net debt	(4,522.3)	(137.9)	-	(1,029.0)	(5,689.2)
Net assets	**2,596.4**	**27.7**	**24.5**	**(2,083.7)**	**564.9**
Other information					
Capital additions	**344.5**	**7.1**	-	**22.1**	**373.7**

Net debt of £5,689.2m as noted above includes cash of £75.6m and short term deposits of £2.7m which are included in the balance sheet within total assets; and borrowings of £5,767.5m which are included on the balance sheet in total liabilities. Net debt is defined in note 22, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £985.5m of loan notes issued by Kelda Eurobond Co Limited.

The Group's geographical segments are based on the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. There are no material assets of the Group located outside the United Kingdom in the year ended 31 March 2014.

3. Segmental information (continued)

Year ended 31 March 2013 (restated)

	UK regulated water services	UK service operations	Property development	Other companies and consolidation adjustments	Total continuing	Reallocation to other operating income	Total after reallocations
	£m	£m	£m	£m	£m	£m	£m
Total revenue	927.0	152.9	4.9	15.3	1,100.1	(4.7)	1,095.4
Inter-company revenue	(2.8)	(68.1)	(0.2)	-	(71.1)	-	(71.1)
External revenue	**924.2**	**84.8**	**4.7**	**15.3**	**1,029.0**	**(4.7)**	**1,024.3**
Depreciation	(237.1)	(14.3)	-	5.5	(245.9)	-	(245.9)
Amortisation of deferred grant income	2.6	-	-	-	2.6	-	2.6
Other operating costs	(339.2)	(56.9)	(3.6)	(55.0)	(454.7)	4.7	(450.0)
	350.5	**13.6**	**1.1**	**(34.2)**	**331.0**	**-**	**331.0**
Exceptional items in operating costs					22.5	-	22.5
					353.5	**-**	**353.5**
Less associates' and joint ventures' interest					(0.2)	-	(0.2)
Group operating profit from continuing operations					**353.3**	**-**	**353.3**
Investment income							17.9
Finance costs							(377.4)
Exceptional items in finance costs							(306.4)
Loss from continuing operations before taxation							**(312.6)**
Tax credit							102.3
Loss for the year attributable to owners of the parent							**(210.3)**

The restatement of the prior year arises from the retrospective application of IAS 19 ‘Employee benefits’ (revised) - see note 20 for further details.

3. Segmental information (continued)

Year ended 31 March 2013

	UK regulated water services	UK service operations	Property development	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m
Assets	12,230.2	339.9	45.9	(3,870.1)	8,745.9
Investments in associates and joint ventures accounted for by the equity method	-	-	1.2	-	1.2
Liabilities	(5,397.6)	(164.6)	(17.0)	2,523.6	(3,055.6)
Net debt	(4,393.1)	(147.3)	-	(1,032.5)	(5,572.9)
Net assets	**2,439.5**	**28.0**	**30.1**	**(2,379.0)**	**118.6**
Other information					
Capital additions	**373.3**	**3.7**	-	**27.1**	**404.1**

Net debt of £5,572.9m as noted above includes cash of £27.2m and short term deposits of £60.3m which are included in the balance sheet within total assets; and borrowings of £5,660.4m which are included on the balance sheet in total liabilities. Net debt is defined in note 22, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £914.6m of loan notes issued by Kelda Eurobond Co Limited.

The Group's geographical segments are based on the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. There are no material assets of the Group located outside the United Kingdom in the year ended 31 March 2014.

4. Operating costs before exceptional items

	2014	2013 (restated)
	£m	£m
Own work capitalised	**(35.9)**	(39.4)
Raw materials and consumables	**32.9**	31.5
Other external charges	**300.8**	310.1
Staff costs (note 6)	**134.9**	132.9
Depreciation of property, plant and equipment (note 12)		
On owned assets		
- UK infrastructure	**58.0**	57.4
- other assets	**182.2**	179.3
On assets held under finance lease		
- UK infrastructure	**1.4**	1.0
- other assets	**7.7**	8.2
Operating lease rentals - minimum lease payments		
- plant and equipment	**2.2**	1.9
- other	**1.4**	1.8
Amortisation of grants and contributions	**(2.9)**	(2.6)
Amortisation of intangible assets (note 10)	**2.1**	1.9
Research and development	**0.3**	0.7
Movement of fair value of energy contracts (note 22)	**6.4**	-
Impairment of trade receivables	**18.4**	16.4
Impairment of loans to related parties	**5.9**	-
Profit on disposal of property, plant and equipment	**(5.9)**	-
Other operating income	**(7.4)**	(7.8)
	702.5	693.3

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 33, is calculated as follows:

	2014	2013 (restated)
	£m	£m
Group operating profit before share of associates and joint ventures	**360.8**	353.5
Add back exceptional items	**-**	(22.5)
Add back depreciation and amortisation of capital grants (as above)	**246.4**	243.3
Add back amortisation of intangible assets (as above)	**2.1**	1.9
EBITDA	**609.3**	576.2

The restatement of the prior year arises from the retrospective application of IAS 19 ‘Employee benefits’ (revised) - see note 20 for further details.

4. Operating costs before exceptional items (continued)

Auditors' remuneration

Services provided by the Group's auditors are analysed as follows:

	2014 £m	2013 £m
Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements	**0.1**	0.2
Fees payable to the Group's auditors for other services:		
- The audit of company's subsidiaries pursuant to legislation	**0.2**	0.1
- Fees for other services	**0.1**	2.1
	0.4	2.4

5. Exceptional items

Exceptional items comprise:

	2014 £m	2013 £m
Included in operating costs:		
Net gain in relation to pension benefit changes	**-**	22.5
	-	22.5
Included in finance income		
Movement of fair value of index linked swaps	**298.2**	-
Movement of fair value of finance lease interest rate swaps	**5.9**	-
	304.1	-
Included in finance costs		
Movement of fair value of index linked swaps	**-**	(297.6)
Movement of fair value of finance lease interest rate swaps	**-**	(3.8)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(0.3)**	(2.8)
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**(5.2)**	(2.2)
	(5.5)	(306.4)

IFRS 13 'Fair Value Measurement' has been applied with effect from 1 April 2013. Included in finance income and costs are fair value gains totalling £87.8m, which relates to the impact of incorporating own credit risk within the fair value of the derivative financial instruments. Own credit risk is calculated based on a comparison of the Group's ten year credit default swap values to their risk free or sovereign equivalents. This gain reflects a cumulative impact changes in the Group's credit risk since executing these derivative financial instruments.

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in the retail price index (RPI) by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2014 resulted in a £1,446.4m provision (2013: £1,729.0m).

5. Exceptional items (continued)

Of the year on year movement of £282.6m, a charge of £15.6m relating to RPI accretion has been recognised within finance costs and a credit of £298.2m (2013: £297.6m charge) has been recognised as an exceptional finance income. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met. Of the £298.2m credit disclosed above, £85.6m arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2014 resulted in a £15.7m liability (2013: £21.6m). The year on year decrease of the liability of £5.9m (2013: £3.8m increase) has been recognised as an exceptional finance income. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met. Of the £5.9m exceptional finance income, £0.6m arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance costs include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £0.3m charge (2013: £2.8m) to the income statement. Included in the £0.3m above is a charge of £0.9m relating to the fair value movement of the cross currency swaps and associated bonds and a credit of £0.6m that arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

Exceptional finance costs also include the fair value movement of fixed to floating interest rate swaps which were nominated as fair value through profit and loss on inception. These fair value interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £5.2m charge (2013: £2.2m) to the income statement. Included in the £5.2m above is a charge of £6.2m relating to the fair value movement of the fixed to floating interest rate swaps and the associated bonds and a credit of £1.0m that arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

During the year ended 31 March 2013 the Group, in co-operation with the pension scheme trustees, carried out a review of defined benefit pension plans with a view to reducing the level of risk in the scheme and ensuring its sustainability for the future. As a result of changes to the terms of the scheme made during the year a net benefit of £22.5m was recognised as exceptional income in 2012/13. There is no similar item in the year to 31 March 2014.

6. Directors and employees

Average monthly number of people employed by the Group	**2014 Number**	2013 Number
UK regulated water services	**2,415**	2,509
Other activities	**932**	875
	3,347	3,384

	2014 £m	2013 £m
Total employment costs:		
Wages and salaries	**104.5**	103.3
Social security costs	**9.6**	9.6
Other pension costs	**20.8**	20.0
	134.9	132.9

Directors' emoluments

	2014 £m	2013 £m
Aggregate emoluments	**2.1**	2.1
Employer contributions to money purchase pension schemes	**0.1**	0.1
	2.2	2.2

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

	2014 £m	2013 £m
Aggregate emoluments	**1.0**	0.9
Employer contributions to money purchase pension schemes	**-**	-
	1.0	0.9

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

During 2013/14, two (2013: two) directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2013/14 was £0.1m (2013: £0.1m).

No director exercised share options during the year. The Group contributed £0.1m (2013: £0.1m) to a money purchase pension scheme on behalf of one director.

During 2013/14, two (2013: two) directors were incentivised through a long term incentive plan which allows them to receive, at the discretion of the Remuneration Committee, a conditional monetary award.

Two directors resigned during the financial year. No directors were compensated for loss of office during the year (2013: £nil).

7. Finance income and finance costs

	2014 £m	2013 (restated) £m
Finance income		
Interest on bank deposits	**0.4**	0.5
Interest receivable from index linked swaps	**7.8**	14.0
Interest receivable from cross currency interest rate swaps	**11.6**	3.4
Interest receivable from parent companies	**0.7**	-
Total finance income	**20.5**	17.9
Finance costs		
Interest payable on guaranteed bonds	**195.6**	181.8
Interest payable on US Dollar bonds	**11.5**	11.5
Interest payable on AU Dollar bonds	**1.6**	-
Amortisation of issue costs in respect of bonds	**1.1**	1.8
Total finance costs for bonds	**209.8**	195.1
Bank loans and overdrafts	**29.4**	38.7
Interest payable on index linked swaps	**55.1**	66.0
Interest payable on bonds issued by Kelda Eurobond Co Limited	**71.5**	70.2
Finance leases	**7.1**	9.0
Change in fair value of financial assets	**14.3**	12.1
Interest payable to parent companies	**-**	2.4
Net interest cost on pension scheme liabilities (note 20)	**6.4**	4.3
Commitment fees and miscellaneous interest	**3.6**	3.0
Total finance costs before capitalisation of interest	**397.2**	400.8
Interest capitalised	**(30.6)**	(23.4)
Total finance costs net of interest capitalised	**366.6**	377.4

The restatement of the prior year arises from the retrospective application of IAS 19 'Employee benefits' (revised) - see note 20 for further details.

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

8. Tax credit

	2014	2013 (restated)
	£m	£m
Current tax		
UK corporation tax at 23% (2013: 24%)	**-**	-
Adjustments in respect of prior years	**(11.6)**	(3.9)
Total current tax from continuing operations	**(11.6)**	(3.9)
Deferred tax		
UK charge for temporary differences arising and reversing in the year	**73.6**	(59.8)
Adjustments in respect of prior years	**(44.6)**	(24.1)
Effect of change in tax rates	**(45.6)**	(14.5)
Total deferred tax on continuing activities (note 19)	**(16.6)**	(98.4)
Total tax credit on profit/(loss) from ordinary activities	**(28.2)**	(102.3)

	2014	2013 (restated)
Tax relating to items credited to equity		
Deferred tax:		
Actuarial gains/(losses) in respect of defined benefit pension schemes	**20.2**	(20.1)
Movement in fair value of hedges	**3.3**	(0.5)
Impact of change in deferred tax rate on revaluation reserve	**(39.6)**	(16.5)
Revaluation of property, plant and equipment	**3.4**	-
Tax credit in the Group statement of comprehensive income	**(12.7)**	(37.1)

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 23% (2013: 24%) to the profit/(loss) on ordinary activities before tax is as follows:

	2014	2013 (restated)
	£m	£m
Profit/(loss) from continuing operations before taxation	**313.2**	(312.6)
Less: share of associates' and joint ventures' loss before tax	**0.1**	0.2
	313.3	(312.4)
Current and deferred tax on Group profit/(loss) on ordinary activities at the standard UK tax rate	**72.1**	(75.0)
Effects of:		
Expenses not deductible for tax purposes	**9.0**	17.6
Income not chargeable for tax purposes	**(7.2)**	(2.4)
Change in deferred tax rate	**(45.6)**	(14.5)
Adjustments in respect of prior years	**(56.2)**	(28.0)
Tax relief received from parent company for no charge	**(0.3)**	-
Group current and deferred tax credit for the year	**(28.2)**	(102.3)

The Finance Act 2013 introduced a reduction in the rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These rates were substantively enacted on 2 July 2013 and, therefore, are included in these financial statements.

8. Tax credit (continued)

The deferred tax credit for the year relates to the following:

	2014	2013 (restated)
	£m	£m
Accelerated depreciation for tax purposes	**(159.5)**	(58.0)
Fair value adjustment of infrastructure assets	**48.1**	6.1
Roll-over relief	**(0.1)**	-
Financial instruments	**97.3**	(55.2)
Retirement benefit obligations	**(2.4)**	8.7
Deferred tax credit	**(16.6)**	(98.4)

The restatement of the prior year arises from the retrospective application of IAS 19 'Employee benefits' (revised) - see note 20 for further details.

9. Dividends

No dividends were paid during the year (2013: £nil).

10. Intangible assets

	Intangible rights under concession contracts	Capitalised bid costs	Goodwill	Total
	£m	£m	£m	£m
Cost				
At 31 March 2012 and at 31 March 2013	67.6	15.9	1,800.3	1,883.8
Additions	1.3	-	-	1.3
At 31 March 2014	**68.9**	**15.9**	**1,800.3**	**1,885.1**
Accumulated amortisation				
At 1 April 2012	4.7	4.5	-	9.2
Amortisation	1.3	0.6	-	1.9
At 31 March 2013	6.0	5.1	-	11.1
Amortisation	1.4	0.7	-	2.1
At 31 March 2014	**7.4**	**5.8**	**-**	**13.2**
Net book value carried forward	**61.5**	**10.1**	**1,800.3**	**1,871.9**
Net book value brought forward	61.6	10.8	1,800.3	1,872.7

Intangible rights under concession contracts arose on the acquisition of Aberdeen Environmental Services Limited (AES) by Kelda Non-Reg Holdco Limited on 23 April 2010. This consisted of 50% of the ordinary share capital of AES, which added to the 50% already held by Kelda Water Services Limited, brings the Group's ownership to 100%.

On acquisition the fair value of intangible rights arising under concession contracts, in line with IFRIC 12, was £64.9m.

10. Intangible assets (continued)

Impairment tests for goodwill

Existing goodwill of £1,800.3m is all allocated to the UK regulated water services business segment. The recoverable amount of the UK regulated water services segment is determined based on a value in use calculation, using post tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long term business modelling covering a 25 year period. The period of cash flows of 25 years is deemed appropriate as it aligns with the long term planning of the regulated business as determined by Ofwat. The discount and inflation rates applied have been determined following advice from external consultants based on risk factors specific to the industry and circumstances of the Group.

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

	2014	2013
Long term inflation (post 2014)	**2.75%**	2.75%
Discount rate (post-tax)	**6.25%**	6.00%

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2014 or year ended 31 March 2013.

Sensitivities to change in the above assumptions are disclosed on page 68.

11. Financial assets

	2014	2013
	£m	£m
At 1 April	**168.6**	177.3
Additions	**7.0**	3.9
Movement in fair value	**(13.0)**	(12.6)
At 31 March	**162.6**	168.6

Financial assets relate to guaranteed contractual cash flows due under service concession contracts.

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

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

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

11. Financial assets (continued)

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

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

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

On 23 April 2010, the Group acquired a further 50% shareholding in AES which is party to a PPCC with Scottish Water for water and waste water services covering the area of Aberdeen for a 30 year period which commenced on 1 May 2000. The contract sets out the obligations of the Group in respect of mandatory works to develop existing infrastructure to specified standards. The existing infrastructure was transferred to the Group at nil cost from contract commencement.

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

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

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

12. Property, plant and equipment

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2013	1,760.1	3,413.8	2,912.5	476.8	8,563.2
Additions at cost	63.3	124.6	135.7	61.9	385.5
Grants and contributions	-	-	-	(11.8)	(11.8)
Transfers on commissioning	24.0	10.4	44.4	(78.8)	-
Revaluation	14.6	-	-	-	14.6
Disposals	(4.4)	-	(14.1)	(0.5)	(19.0)
At 31 March 2014	**1,857.6**	**3,548.8**	**3,078.5**	**447.6**	**8,932.5**
Accumulated depreciation					
At 1 April 2013	445.5	58.4	1,570.0	-	2,073.9
Charge for the year	33.2	59.4	156.7	-	249.3
Revaluation	(2.6)	-	-	-	(2.6)
Impairment	0.9	-	-	-	0.9
Disposals	(3.4)	-	(13.6)	-	(17.0)
At 31 March 2014	**473.6**	**117.8**	**1,713.1**	**-**	**2,304.5**
Net book amount at 31 March 2014	**1,384.0**	**3,431.0**	**1,365.4**	**447.6**	**6,628.0**

During the year the Group capitalised borrowing costs amounting to £30.6m (2013: £23.4m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.97% (2013: 4.08%).

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2012	1,728.4	3,281.4	2,694.1	511.8	8,215.7
Additions at cost	6.3	34.0	74.4	313.7	428.4
Grants and contributions	-	-	-	(24.3)	(24.3)
Transfers on commissioning	49.2	98.4	176.8	(324.4)	-
Disposals	(23.8)	-	(32.8)	-	(56.6)
At 31 March 2013	1,760.1	3,413.8	2,912.5	476.8	8,563.2
Accumulated depreciation					
At 1 April 2012	433.5	-	1,444.6	-	1,878.1
Charge for the year	34.2	58.4	153.3	-	245.9
Disposals	(22.2)	-	(27.9)	-	(50.1)
At 31 March 2013	445.5	58.4	1,570.0	-	2,073.9
Net book amount at 31 March 2013	1,314.6	3,355.4	1,342.5	476.8	6,489.3

12. Property, plant and equipment (continued)

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost	108.6	71.3	181.9	**361.8**
Depreciation	(35.3)	(25.8)	(133.5)	**(194.6)**
Net book amount at 31 March 2014	**73.3**	**45.5**	**48.4**	**167.2**
Net book amount at 31 March 2013	75.0	47.1	54.2	176.3

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

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

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

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

Such valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. The calculations carried out at 31 March 2012 have been reviewed at 31 March 2014 by the directors, who concluded that current book values are not materially different to current market values.

Certain categories of the Group's land and buildings are also held at valuation, on the basis of existing use, and were valued by independent qualified valuers in March 2014.

The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

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

12. Property, plant and equipment (continued)

These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. As a result of the valuation carried out at 31 March 2014 the carrying value of land and buildings was increased by £17.2m and the resulting revaluation surplus taken to the revaluation reserve together with an associated deferred tax impact of £3.4m. As a result of the same revaluation certain properties were impaired and an impairment loss of £0.9m was recognised in the profit and loss.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,564.1m (2013: £3,429.1m).

Categories of assets revalued are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	3,431.0	2,407.3
Non-specialist properties	18.6	16.3
Rural estates	60.3	0.5
Residential properties	3.1	-
Net book amount of asset revalued	**3,513.0**	**2,424.1**

Analysis of the net book value of revalued land and building is as follows:

	Revalued amount £m	Historical cost basis £m
31 March 2012	68.7	17.5
Disposal of revalued assets	(0.5)	-
Aggregate depreciation	(0.7)	(0.4)
31 March 2013	67.5	17.1
Additions to revalued assets	0.4	0.4
Valuation surplus recognised during the year (net of impairment)	16.3	-
Disposal of revalued assets	(1.5)	(0.3)
Aggregate depreciation	(0.7)	(0.4)
31 March 2014	**82.0**	**16.8**

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

	Revalued amount £m	Historical cost basis £m
At cost	3,548.8	3,535.6
Aggregate depreciation	(117.8)	(1,128.3)
31 March 2014	**3,431.0**	**2,407.3**

13. Investments

	Share of net liabilities in associated and joint venture undertakings	Loans to associated and joint venture undertakings	Total investments in associated and joint venture undertakings
	£m	£m	£m
Cost and share of post acquisition retained losses			
At 1 April 2012	(5.2)	4.7	(0.5)
Share of sustained loss for the year	(0.2)	-	(0.2)
Loans advanced during the year	-	4.4	4.4
At 1 April 2013	(5.4)	9.1	3.7
Share of sustained loss for the year	(0.1)	-	(0.1)
Loans advanced during the year	-	0.8	0.8
At 31 March 2014	**(5.5)**	**9.9**	**4.4**

Of the share of net liabilities in the table above of £5.5m (2013: £5.4m), the share of losses relating to certain associated undertakings of £6.9m (2013: £6.6m) is held as a provision in line with IAS 27. The remaining asset balance of £1.4m (2013: £1.2m) is shown as an investment relating to the share of net assets held.

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

	2014	2013
	£m	£m
Non-current assets	**4.6**	4.2
Current assets	**4.1**	4.0
Share of gross assets	**8.7**	8.2
Current liabilities	**(14.4)**	(13.6)
Share of liabilities	**(14.4)**	(13.6)
Share of net liabilities	**(5.7)**	(5.4)
Operating loss	**(0.1)**	(0.1)
Finance costs	**-**	(0.1)
Loss before tax	**(0.1)**	(0.2)
Tax charge	**-**	-
Sustained loss	**(0.1)**	(0.2)

14. Inventories

	2014	2013
	£m	£m
Raw materials and consumables	**1.1**	1.5

15. Trade and other receivables

Amounts falling due within one year:	**2014 £m**	2013 £m
Trade receivables	**125.4**	114.4
Provision for impairment of trade receivables	**(26.2)**	(25.7)
Provision for impairment of loans to associates	**(5.9)**	-
Prepayments and accrued income	**72.3**	67.9
Amounts owed by parent company	**0.2**	-
Other tax and social security	**7.8**	14.5
Other receivables	**17.6**	14.6
	191.2	185.7

Amounts falling due in more than one year:		
Amounts owed by parent company	**70.0**	-
Other receivables	**3.3**	-
	73.3	-

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 22 for further details of credit risks associated with financial instruments.

Amounts owed by parent company are repayable on demand, however as they not expected to be settled in the short term they are classified as long term balances. Interest is charged at LIBOR +2.0% margin. The interest is rolled up into the principal in August and February.

Trade receivables can be analysed as follows:

	2014 £m	2013 £m
Main charges trade receivables:		
Past due but not impaired	**78.7**	72.8
Past due and impaired	**24.9**	24.4
Other trade receivables:		
Past due but not impaired	**20.5**	15.9
Past due and impaired	**1.3**	1.3
	125.4	114.4

15. Trade and other receivables (continued)

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

	2014	2013
	£m	£m
Main charges trade receivables:		
Less than one year overdue	**53.6**	49.8
Between one and two years overdue	**13.9**	12.7
Between two and three years overdue	**6.0**	5.5
Between three and four years overdue	**2.8**	2.7
More than four years overdue	**2.4**	2.1
Other trade receivables:		
Less than one year overdue	**20.5**	15.8
Between two and three years overdue	**-**	0.1
	99.2	88.7

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

	2014	2013
	£m	£m
Main charges trade receivables:		
Less than one year overdue	**10.2**	10.0
Between one and two years overdue	**5.4**	5.0
Between two and three years overdue	**3.7**	3.5
Between three and four years overdue	**2.9**	3.2
More than four years overdue	**2.7**	2.7
Other trade receivables:		
Less than one year overdue	**1.3**	1.3
	26.2	25.7

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

	2014	2013
	£m	£m
Provision brought forward	**25.7**	24.1
Provision for impairment	**18.4**	16.4
Amounts written off	**(17.9)**	(14.8)
Provision at 31 March 2014	**26.2**	25.7

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

16. Financing

(i) Cash and short-term deposits

	2014 £m	2013 £m
Cash and cash equivalents	**75.6**	27.2
Short term deposits	**2.7**	60.3
	78.3	87.5

At 31 March 2014, the Group had available £650.3m (2013: £657.3m) of undrawn committed borrowing facilities.

(ii) Borrowings

Current borrowings:	**2014 £m**	2013 £m
Bank borrowings	**198.4**	207.1
Bank borrowings under Kelda Finance facility	**65.0**	65.0
Finance lease liabilities	**28.9**	8.3
	292.3	280.4

Non-current borrowings:	**2014 £m**	2013 £m
Bank borrowings	**455.9**	492.3
Fixed rate guaranteed bonds due in less than 5 years	**447.9**	447.3
Fixed rate guaranteed bonds due in more than 5 years	**1,867.7**	1,794.6
Index linked guaranteed bonds due in more than 5 years	**1,079.9**	1,048.0
RPI uplift on index linked bonds	**107.7**	92.1
Fixed rate US Dollar bonds due in less than 5 years	**29.4**	-
Fixed rate US Dollar bonds due in more than 5 years	**236.7**	309.1
Fixed rate AUS Dollar bonds due in more than 5 years	**27.3**	-
Bonds issued by Kelda Eurobond Co Limited	**985.5**	914.6
Other borrowings	**3.2**	1.9
Finance lease liabilities	**234.0**	262.9
Amounts owed to parent company	**-**	17.2
	5,475.2	5,380.0

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

6% guaranteed bonds 2017 £447.9m (2013: £447.3m)
These bonds are repayable in one sum on 19 August 2017. The interest is charged at 6%.

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

6% guaranteed bonds 2019 £273.6m (2013: £273.3m)
These bonds are repayable in one sum on 21 August 2019. Interest is charged at 6%.

6.5876% guaranteed bonds 2023 (Exchange bonds) £197.0m (2013: £197.0m)
These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

16. Financing (continued)

5.375% guaranteed bonds 2023 (Stranded bonds) £4.3m (2013: £4.1m)
These bonds are repayable in one instalment on 21 February 2023. Interest is charged at 5.375%.

5.5% guaranteed bonds 2027 (Stranded bonds) £6.3m (2013: £6.3m)
These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

6.454% guaranteed bonds 2027 (Exchange bonds) £124.6m (2013: £124.6m)
These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

6.6011% guaranteed bonds 2031 (Exchange bonds) £262.9m (2013: £262.9m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.6011%.

6.625% guaranteed bonds 2031 (Stranded bonds) £0.7m (2013: £0.7m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

5.5% guaranteed bonds 2037 £182.2m (2013: £182.1m)
These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

6.375% guaranteed bonds 2039 £305.3m (2013: £305.7m)
These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

5.75% guaranteed bonds 2020 £196.7m (2013: £196.2m)
These bonds were taken out on 6 February 2013 and are repayable in one sum on 17 February 2020. The interest is charged at 5.75%.

3.625% *guaranteed bonds 2029 £227.9m (2013: £241.7m)*
These bonds were issued on 1 August 2012 are repayable in one instalment on 1 August 2029. The interest is charged at 3.625%.

4.965% Class B guaranteed bonds 2033 £86.2m (2013: £nil)
These bonds were issued in May 2013 and are repayable in one instalment on 12 December 2033. The interest is charged at 4.965%.

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

3.3066% index linked guaranteed bonds 2033 (Exchange bonds) £166.6m (2013: £163.2m)
These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.718% index linked guaranteed bonds 2039 £322.2m (2013: £314.5m)
These bonds are repayable in one instalment on 30 December 2039. The interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.16% *% index linked guaranteed bonds 2041 £52.8m (2013: £51.4m)*
These bonds are repayable in one instalment on 30 December 2041. The interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

16. Financing (continued)

1.8225% index linked guaranteed bonds 2050 £67.6m (2013: £65.5m)
These bonds are repayable in one instalment on 1 February 2050. The interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.462% index linked guaranteed bonds 2051 £115.4m (2013: £111.1m)
These bonds are repayable in one instalment on 1 August 2051. The interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.758% index linked guaranteed bonds 2054 £86.1m (2013: £83.3m)
These bonds are repayable in one instalment on 1 February 2054. The interest is charged at 1.758% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.46% index linked guaranteed bonds 2056 £118.0m (2013: £113.7m)
These bonds are repayable in one instalment on 1 August 2056. The interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.709% index linked guaranteed bonds 2058 £98.8m (2013: £95.5m)
These bonds are repayable in one instalment on 1 February 2058. The interest is charged at 1.709% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.803% *index linked guaranteed bonds 2042 £52.4m (2013: £51.0m)*
These bonds were issued on 22 May 2012 are repayable in one instalment on 22 May 2042. The interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

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

Fixed rate US Dollar bonds

During the year ended 31 March 2012 the Group raised $455m of US bonds in tranches with durations of 7, 10, 12 and 15 years, incurring fixed rate interest charges at rates from 3.18% to 5.07%, as follows:

- $30m fixed rate bonds expiring in 2018 carrying fixed rate interest at 3.18%; and
- $115m fixed rate bonds expiring in 2021 carrying fixed rate interest at 3.77%.

The above bonds were issued on 13 December 2011.

16. Financing (continued)

- $15m fixed rate bonds expiring in 2019 carrying fixed rate interest at 3.18%;
- $40m fixed rate bonds expiring in 2022 carrying fixed rate interest at 3.77%;
- $75m fixed rate bonds expiring in 2022 carrying fixed rate interest at 5.07%;
- $150m fixed rate bonds expiring in 2023 carrying fixed rate interest at 3.87%; and
- $30m fixed rate bonds expiring in 2024 carrying fixed rate interest at 3.87%.

The above bonds were issued on 5 January 2012.

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

Fixed rate Australian Dollar bonds

In May 2013 Yorkshire Water Services Bradford Finance Limited raised AU$50m of Australian dollar fixed rate bonds. These are repayable in one lump sum on 15 August 2023 and attract interest at 5.875%.

Bank loans
Bank loans within long term borrowings relates to facilities held with European Investment Bank, repayable as £29.0m (1 - 2 years), £109.9m (2 – 5 years) and £167.3m (more than 5 years), and PFI loans relating to service concession contracts repayable as £10.2m (1 – 2 years), £32.8m (2 – 5 years) and £106.7m (more than 5 years).

Short and long term bank loans are held in sterling and bear interest at normal commercial rates. The weighted average interest rates associated with the bank loans were 3.001% (2013: 3.315%).

Bonds issued by Kelda Eurobond Co Limited
These bonds are repayable 2018. The interest rates are based on a 7.0% margin plus LIBOR.

(iii) Finance leases

Amounts payable under finance leases:	**Minimum lease payments 2014 £m**	Minimum lease payments 2013 £m
No later than 1 year	**42.5**	11.0
Later than 1 year and no later than 5 years	**194.4**	228.7
Later than 5 years	**131.6**	145.5
	368.5	385.2
Less: future finance charges on finance lease liabilities	**(105.6)**	(114.0)
Present value of lease obligations	**262.9**	271.2
Amount due for settlement within 12 months	**28.9**	8.3
Amount due for settlement after 12 months	**234.0**	262.9
	262.9	271.2

All lease obligations are denominated in sterling.

16. Financing (continued)

The weighted average lease term is 11.0 years (2013: 13.0 years). For the year ended 31 March 2014 the average effective borrowing rate was 1.8% (2013: 2.6%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

17. Trade and other payables

Amounts falling due within one year:	**2014 £m**	2013 £m
Trade payables	**58.3**	60.5
Capital payables	**66.4**	100.9
Social security and other taxes	**2.6**	2.8
Receipts in advance	**57.2**	51.0
Interest payable	**111.7**	98.4
Deferred income	**161.9**	148.9
Other payables	**34.0**	34.2
	492.1	496.7

Amounts falling due after more than one year:	**2014 £m**	2013 £m
Interest payable	**42.7**	50.8
Other payables	**16.2**	13.4
	58.9	64.2

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

18. Provisions for other liabilities and charges

	£m
At 1 April 2012	23.2
Provision created in relation to losses sustained in associated undertakings	0.1
Utilised in year	(1.8)
At 1 April 2013	21.5
Provision created in relation to losses sustained in associated undertakings	0.3
Provision created in relation to dilapidation claims	0.8
Provision created in relation to an onerous contract	0.2
At 31 March 2014	**22.8**

Provisions include £14.4m (2013: £14.2m) in relation to expected losses from the contract to provide sewerage services to the City of Bridgeport in Connecticut, US. The contract terminated in December 2013. The provision will be utilised as termination costs on the contract are incurred and while the expected future losses are uncertain management do not expect any material difference to the amounts provided.

In addition provisions include £6.9m (2013: £6.6m) in relation to losses relating to certain associated undertakings (note 13) and £0.8m in relation to the expected cost of rectification work at the end of a property lease held by the Group.

19. Deferred income tax liabilities

	Accelerated capital allowances	Revaluation reserve	Fair value adjustment of infrastructure assets	Roll-over relief	Financial instruments	Pension obligations	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2012	716.7	269.4	39.2	0.8	(324.8)	(24.5)	676.8
(Credit)/charge to income statement	(58.0)	-	6.1	-	(55.2)	8.7	(98.4)
Credit to equity	-	(16.5)	-	-	(0.5)	(20.1)	(37.1)
At 1 April 2013 (restated)	658.7	252.9	45.3	0.8	(380.5)	(35.9)	541.3
Transfer on capitalisation of revaluation reserve	-	(252.9)	252.9	-	-	-	-
(Credit)/charge to income statement	(159.5)	-	48.1	(0.1)	97.3	(2.4)	(16.6)
Charge/(credit) to equity	-	3.4	(39.6)	-	3.3	20.2	(12.7)
At 31 March 2014	**499.2**	**3.4**	**306.7**	**0.7**	**(279.9)**	**(18.1)**	**512.0**

The Group has unrecognised capital losses of £17.3m (2013: £17.3m) which are available indefinitely against future eligible capital profits of the Group. No deferred tax asset has been recognised on capital losses as their utilisation is not currently foreseen.

20. Pensions

(i) Characteristics of and risks associated with the Group's schemes

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

The responsibility for the governance of the Group's defined benefit pension scheme lies with the Pension Trustees. The scheme is managed by a Trustee Board (the Trustee) whose role is to ensure that the Scheme is administered in accordance with the Scheme rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee is solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's regulations.

The majority of members paid contributions over the year ended 31 March 2014 at rates of 5%, 6%, 7%, or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The Group contributed 14.6% of pensionable pay. The Group also paid lump sum deficit contributions of £1m per month in the year to 31 March 2014.

An accrual for unfunded benefits of £7.4m has been included in the Group's financial statements at 31 March 2014 (2013: £7.2m).

20. Pensions (continued)

Risk exposure of the defined benefit scheme

Whilst the Group is not exposed to any unusual, entity specific or scheme specific risks in its defined benefit pension scheme, it is exposed to a number of significant risks, detailed below:

Inflation rate risk: KGPP has entered into an inflation mechanism with the Group. This has been entered into as part of a de-risking mandate agreed with the Pension Trustee and is aimed at reducing the volatility in future funding and contributions. The swap mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 2.8% per annum. In periods when actual inflation is higher than 2.8%, the Group will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the principal subsidiary of the Group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on high quality corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the value of bond holdings.

Longevity risk: The majority of the scheme's obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the plan's liabilities.

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension liability on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the pension expense in the Group's income statement.

The ultimate cost of the defined benefit obligations to the Group will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the cost may be higher or lower than expected.

20. Pensions (continued)

(ii) Major assumptions

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

	2014	2013
	%	%
Inflation (RPI)	**3.35**	3.40
Inflation (CPI)	**2.45**	2.70
Rate of increase in salaries	**4.35**	4.40
Rate of increase to pensions in payment and deferred pensions	**3.40**	3.40
Discount rate for scheme liabilities	**4.55**	4.40
Life expectancy for a male pensioner aged 60 (in years)	**26.60**	26.70
Projected life expectancy at age 60 for male aged 40 (in years)	**28.60**	28.70

(iii) Scheme assets and liabilities

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

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

	2014	2013
	£m	£m
Fair value of scheme assets		
Equities	**242.9**	438.5
Bonds	**325.3**	400.0
Property	**82.4**	76.3
Other	**417.7**	106.1
Total value of assets	**1,068.3**	1,020.9
Present value of scheme liabilities	**(1,161.3)**	(1,179.3)
Post employment benefit deficit	**(93.0)**	(158.4)

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

20. Pensions (continued)

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

	2014	2013 (restated)
	£m	£m
Analysis of amount charged to operating costs:		
Current service cost	**16.4**	16.6
Past service cost	**2.4**	0.5
Exceptional costs associated with improved commutation factors (note 5)	**-**	20.6
Net interest cost on pension scheme	**6.4**	4.3
Exceptional gain on plan curtailments (note 5)	**-**	(43.1)
Administrative expenses and taxes	**1.0**	1.4
Amounts charged to the income statement before taxation	**26.2**	0.3
Analysis of amounts recognised in Group statement of comprehensive income:		
Return on plan assets (excluding interest income)	**(19.0)**	(77.0)
Effect of changes in demographic assumptions	**(8.0)**	3.1
Effect of changes in financial assumptions	**(37.3)**	166.9
Effect of experience adjustments	**-**	(5.3)
Actuarial (gain)/loss recognised in the Group statement of comprehensive income	**(64.3)**	87.7
Total defined benefit (income)/cost recognised in the income statement and statement of comprehensive income	**(38.1)**	88.0

Amounts included within the financial statements for the year ended 31 March 2013 have been restated in line with IAS 19 ‘Employee benefits’ (revised). The effect of the restatement has been to increase operating costs by £0.4m and increase net interest cost on the scheme by £4.5m. The net effect of these items results in a charge to the income statement of £0.3m after restatement compared to a credit of £4.6m. The actuarial loss recognised in the Group statement of comprehensive income has been restated to £87.7m compared to £92.6m. There was no impact on the value of the net pension liability at 31 March 2013.

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

The total contributions to the defined benefit and defined contribution plans in the year ending 31 March 2015 are expected to be £25.6m for the Group (2013: £24.8m).

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2014, a cumulative pre-tax loss of £159.4m (2013: £223.7m restated) had been recorded directly in the statement of comprehensive income.

20. Pensions (continued)

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

	2014 £m	2013 (restated) £m
Movements in the defined benefit obligation		
At 1 April	**(1,179.3)**	(1,003.7)
Current service cost	**(16.4)**	(16.6)
Interest expense	**(51.0)**	(49.8)
Remeasurements:		
Actuarial gains – experience	**-**	5.3
Actuarial gains/(losses) – demographic assumptions	**8.0**	(3.1)
Actuarial gains/(losses) – financial assumptions	**37.3**	(166.9)
Benefits paid	**42.6**	33.6
Past service cost	**(2.4)**	(0.5)
Plan participants' contributions	**(0.1)**	(0.1)
Exceptional costs associated with improved commutation factors	**-**	(20.6)
Exceptional gain on plan curtailment	**-**	43.1
At 31 March	**(1,161.3)**	(1,179.3)
The total defined benefit obligation comprises:		
Amounts owing to active members	**(418.9)**	(402.5)
Amounts owing to deferred members	**(231.6)**	(239.0)
Amounts owing to retired members	**(510.8)**	(537.8)
Total defined benefit obligation at 31 December	**(1,161.3)**	(1,179.3)

	2014 £m	2013 (restated) £m
Changes in the fair value of scheme assets:		
At 1 April	**1,020.9**	904.0
Return on plan assets (excluding interest income)	**19.0**	77.0
Interest income	**44.6**	45.5
Employer contributions	**27.3**	29.3
Plan participants' contributions	**0.1**	0.1
Benefits paid	**(42.6)**	(33.6)
Administrative expenses paid from plan assets	**(1.0)**	(1.4)
At 31 March	**1,068.3**	1,020.9

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

(vi) Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of scheme liabilities and the resulting pension charge in the income statement and on the net defined benefit pension scheme liability is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes' assets remain unchanged, and are not intended to represent changes that are at the extremes of possibility.

20. Pensions (continued)

The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

Analysis of the impact on the net balance sheet position:

	Base 2014	**Decrease 0.25% discount rate**	**Increase 0.25% discount rate**	**Decrease 0.25% inflation rate**	**Increase 0.25% inflation rate**	**Mortality minus one year age rating**
	£m	**£m**	£m	£m	£m	£m
Fair value of scheme assets	**1,068.3**	**1,068.3**	1,068.3	1,068.3	1,068.3	1,068.3
Present value of defined benefit obligation	**(1,161.3)**	**(1,205.0)**	(1,101.0)	(1,102.5)	(1,202.8)	(1,177.3)
Deficit in the scheme	**(93.0)**	**(136.7)**	(32.7)	(34.2)	(134.5)	(109.0)

Actuarial assumptions used in sensitivity analysis:

	2014	**Decrease 0.25% discount rate**	**Increase 0.25% discount rate**	**Decrease 0.25% inflation rate**	**Increase 0.25% inflation rate**	**Mortality minus one year age rating**
	%	**%**	%	%	%	%
Discount rate	**4.55**	**4.35**	4.85	4.60	4.60	4.60
Rate of RPI assumption	**3.35**	**3.35**	3.35	3.10	3.60	3.35
Rate of CPI assumption	**2.45**	**2.45**	2.45	2.20	2.50	2.45
Rate of salary increase	**4.35**	**3.44**	3.44	3.21	3.68	3.44

The inflation assumption sensitivity applies to both the assumed rate of increase in the Consumer Prices Index (CPI) and the Retail Prices Index (RPI), and include the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

Maturity profile of defined benefit obligation:

The following table provides information on the weighted average duration of the defined benefit pension obligation:

	2014 Years	**2013 Years**
Duration of the defined benefit obligation	18	19

The following table provides information on the distribution and timing of benefit payments:

	£m
Within 12 months	43.8
Between 1 and 2 years	45.1
Between 2 and 3 years	46.4
Between 3 and 4 years	47.7
Between 4 and 5 years	49.1
Between 5 and 10 years	267.4

20. Pensions (continued)

Funding arrangements

The last triennial funding valuation of the scheme was carried out at 31 March 2012 and the next valuation is due 31 March 2015. In the year to 31 March 2014 the Group contributed 14.6% of pensionable pay and also paid lump sum deficit contributions of £1m per month. Funding of the scheme is also subject to the inflation mechanism entered into by KGPP in the year ended 31 March 2013. This has been entered into as part of a de-risking mandate agreed with the Trustee, including reducing equity and interest rate risks and is aimed at reducing the volatility in future funding and contributions. The swap mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 2.8% per annum. In periods when actual inflation is higher than 2.8%, the Group will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the principal subsidiary of the Group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

(vii) Defined contribution scheme

The Group ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007. The total charged to the income statement for the defined contribution schemes for the year ended 31 March 2014 was £2.4m (2013: £1.2m).

21. Ordinary shares

	Ordinary shares of 1p		Ordinary shares of £1	
	Number	1p shares £	Number	£1 shares £
Issued and fully paid:				
At 31 March 2014 and 31 March 2013	1	0.01	750,000,000	750,000,000

22. Financial instruments

The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Net debt and associated financial instruments comprise the following:

	2014 Less than one year £m	**2014 More than one year £m**	**2014 Total £m**	2013 Less than one year £m	2013 More than one year £m	2013 Total £m
Financial assets:						
Combined cross currency interest rate swaps	**-**	**-**	**-**	19.0	-	19.0
	-	**-**	**-**	19.0	-	19.0
Financial liabilities:						
Finance lease interest swaps	**-**	**(15.7)**	**(15.7)**	-	(21.6)	(21.6)
Index linked swaps	**-**	**(1,338.7)**	**(1,338.7)**	-	(1,636.9)	(1,636.9)
Combined cross currency interest rate swaps	**-**	**(30.7)**	**(30.7)**	-	-	-
Derivative financial instrument on energy contracts	**(5.7)**	**(0.7)**	**(6.4)**		-	-
Fixed to floating interest rate swaps	**-**	**(29.3)**	**(29.3)**	-	(7.3)	(7.3)
Other interest rate swaps	**-**	**(25.8)**	**(25.8)**	-	(36.3)	(36.3)
	(5.7)	**(1,440.9)**	**(1,446.6)**	-	(1,702.1)	(1,702.1)
Net debt:						
Cash and short term deposits	**78.3**	**-**	**78.3**	87.5	-	87.5
Borrowings	**(292.3)**	**(5,475.2)**	**(5,767.5)**	(280.4)	(5,380.0)	(5,660.4)
	(214.0)	**(5,475.2)**	**(5,689.2)**	(192.9)	(5,380.0)	(5,572.9)

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

The Group has made a provision for the mark to market loss of £1,446.4m (2013: £1,729.0m) on index linked swaps. £1,338.7m (2013: £1,636.9m) is shown as index linked swaps as in the table above; the remaining £107.7m (2013: £92.1m) is shown within borrowings in note 16.

The Group uses energy derivatives to manage its exposure to change in energy prices. The derivate contract allows the Group to sell back previously locked in trades and take advantage of short term price fluctuations resulting in a position of net settlement. As a result the contract is classified as fair value through profit and loss in line with IAS 39. The fair value of the energy derivative at 31 March 2014 was £6.4m (2013: £nil). The year on year movement in fair value of £6.4m has been recognised as a charge in other operating costs within the income statement.

22. Financial instruments (continued)

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

The interest rate risk profile of the Group's financial assets and liabilities at 31 March 2014 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Year ended 31 March 2014

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	269.3	41.0	39.9	38.8	27.9	98.7	515.6
Guaranteed bonds	133.7	133.7	133.7	558.4	106.7	2,859.9	3,926.1
US Dollar bonds	11.3	11.3	11.3	11.3	39.4	294.8	379.4
Other interest rate swaps	5.0	4.8	4.4	4.1	4.0	33.1	55.4
Finance lease swaps	2.3	2.0	1.6	1.4	1.3	15.1	23.7
	421.6	192.8	190.9	614.0	179.3	3,301.6	4,900.2
Floating rate							
Index linked guaranteed bonds	23.9	23.9	23.9	23.9	23.9	1,749.5	1,869.0
US Dollar bonds	1.1	1.1	1.1	1.1	1.1	79.1	84.6
Guaranteed bonds	6.5	6.5	6.5	6.5	6.5	198.2	230.7
Bank loans	9.3	10.3	12.1	13.5	28.9	256.0	330.1
Combined cross currency interest rate swaps	7.4	7.4	7.4	7.4	7.4	25.2	62.2
Eurobonds issued by Kelda Eurobond Co Limited	75.0	79.7	88.8	1,080.9	-	-	1,324.4
Index linked swaps	32.0	32.0	133.9	93.3	32.0	1,899.0	2,222.2
Fair value interest rate swaps	7.6	7.6	7.6	7.6	7.6	86.6	124.6
Finance leases	42.5	49.9	115.0	12.7	16.8	131.6	368.5
	205.3	218.4	396.3	1,246.9	124.2	4,425.2	6,616.3
Non-interest bearing financial liabilities							
Trade payables	58.3	-	-	-	-	-	58.3
Other payables	322.1	-	-	-	-	-	322.1
	380.4	-	-	-	-	-	380.4

22. Financial instruments (continued)

Year ended 31 March 2013

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	49.6	42.3	41.0	39.9	38.8	106.2	317.8
Guaranteed bonds	133.7	133.7	133.7	133.7	558.4	2,966.6	4,059.8
US Dollar bonds	11.4	11.4	11.4	11.4	11.4	336.1	393.1
Other interest rate swaps	1.7	1.9	1.8	1.7	1.6	11.5	20.2
Finance lease swaps	2.1	2.3	2.3	2.3	2.3	29.7	41.0
	198.5	191.6	190.2	189.0	612.5	3,450.1	4,831.9
Floating rate							
Index linked guaranteed bonds	23.0	23.0	23.0	23.0	23.0	1,707.9	1,822.9
US Dollar bonds	1.1	1.1	1.1	1.1	1.1	76.9	82.4
Loans from parent companies	17.2	-	-	-	-	-	17.2
Bank loans	78.4	5.5	5.6	6.2	22.3	202.6	320.6
Combined cross currency interest rate swaps	6.6	6.6	6.6	6.6	6.6	28.2	61.2
Eurobonds issued by Kelda Eurobond Co Limited	74.0	69.5	69.6	71.3	990.6	-	1,275.0
Index linked swaps	31.9	31.9	31.9	133.9	93.3	1,929.7	2,252.6
Fair value interest rate swaps	4.8	4.8	4.8	4.8	4.8	52.4	76.4
Finance leases	10.9	52.6	49.5	57.8	68.8	145.5	385.1
	247.9	195.0	192.1	304.7	1,210.5	4,143.2	6,293.4
Non-interest bearing financial liabilities							
Trade payables	60.5	-	-	-	-	-	60.5
Other payables	236.3	-	-	-	-	-	236.3
	296.8	-	-	-	-	-	296.8

(b) Financial risks

Capital risk management

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

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

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

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

Credit risk

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

22. Financial instruments (continued)

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

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

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

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

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

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

		Group		Company
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Cash and short term deposits (see note 16)	**78.3**	87.5	**-**	-
Trade and other receivables (see note 15)	**191.2**	185.7	**1.4**	1.4
Financial assets	**-**	19.0	**-**	-
Investments	**11.3**	10.3	**1,468.3**	1,472.3

Liquidity risk

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

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

22. Financial instruments (continued)

At 31 March 2014 the Group had £728.6m of available liquidity (2013: £744.8m) which comprised £78.3m in available cash and short term deposits (2013: £87.5m) and £650.3m of undrawn committed borrowing facilities (2013: £657.3m).

The maturity profile on page 104 represents the forecast future contractual principal and interest cashflows in relation to the Group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

Market risk

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

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

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

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

Impact on profit before tax	**2014 £m**	2013 £m
1% increase in RPI leading to a decrease in profit	**(43.0)**	(44.9)
1% decrease in RPI leading to an increase in profit	**43.0**	44.9
1% increase in LIBOR leading to an increase in profit	**(6.5)**	(5.3)
1% decrease in LIBOR leading to a decrease in profit	**6.5**	5.3

22. Financial instruments (continued)

(c) Fair values of financial assets and financial liabilities

The following table provides the fair values of the Group's financial assets and liabilities at 31 March 2014.

	2014 Level 1 £m	2014 Level 2 £m	2013 Level 1 £m	2013 Level 2 £m
Primary financial instruments financing the Group's operations				
Financial assets held at amortised cost				
Cash and short term deposits	**(78.3)**	**-**	(87.5)	-
Financial assets from concession arrangements	**(162.6)**	**-**	(168.6)	-
Loans to associates/joint ventures	**(9.9)**	**-**	(9.1)	-
Financial assets designated as Fair Value Through Profit and Loss				
Combined cross currency interest rate fair value swaps	**-**	**-**	-	(19.0)
Financial liabilities				
Designated as Fair Value Through Profit and Loss				
Fixed rate interest rate swaps in respect of finance leases	**-**	**15.7**	-	21.6
Combined cross currency interest rate fair value swaps (US and AU Dollar)	**-**	**30.7**	-	-
Fixed rate US Dollar bonds	**-**	**266.1**	-	309.1
Fixed rate AU Dollar bonds	**-**	**27.3**	-	-
Fixed rate Sterling bonds	**231.1**	**86.9**	244.9	-
Fixed to floating interest rate swaps	**-**	**29.3**	-	7.3
Index linked swaps	**-**	**1,446.4**	-	1,729.0
Energy derivative	**6.4**	**-**	-	-
Designated as Fair Value Through Other Comprehensive Income				
Other interest rate swaps	**-**	**25.8**	-	36.3
Financial liabilities held at amortised cost				
Fixed rate bank loans	**720.6**	**-**	818.0	-
Eurobonds issued by Kelda Eurobond Co Limited	**985.5**	**-**	914.6	-
Fixed rate sterling bonds	**2,356.0**	**-**	2,478.0	-
Index linked sterling bonds	**1,042.5**	**105.8**	1,069.5	103.0
Finance leases	**262.9**	**-**	271.2	-
Amounts owed to parent companies	**-**	**-**	17.2	-
Other loans	**-**	**-**	1.9	-

22. Financial instruments (continued)

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

Fair value hierarchy of derivative financial instruments
For all financial instruments held by the Group, those that are held at fair value are to be classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 - unadjusted quoted prices in active markets or identical assets or liabilities;

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The Group holds all derivatives at fair value using discounted cash flow models based on observable market rates adjusted for own and counter-party credit risk. Therefore all derivative financial instruments held by the Group fall into Level 2. No financial instruments have moved between the levels in the year.

Movements in the fair value of index linked swaps in respect of borrowings of £282.6m were recognised in the income statement (2013: £325.3m). Of this movement a credit of £298.2m (2013: charge of £297.6m) is recognised in exceptional finance income and a charge of £15.6m (2013: £27.7m) is recognised in finance costs to accrue for the RPI bullet payment on the swaps. Movements in the fair value of fixed rate swaps in respect of finance leases of £5.9m were recognised in the income statement (2013: £3.8m).

A charge from the movement in fair value of combined cross currency interest rate swaps of £49.7m was recognised in the income statement (2013: £22.4m income), offset by the change in fair value of the associated bonds of £49.4m (2013: £25.2m income). Of the change in fair value of associated bonds, £43.0m (2013: £25.2m income) relates to Fixed US Dollar bonds. The remaining £6.4m (2013: £nil) change in fair value relates to the movement between the fair value of AUS Dollar bonds of £33.7m when issued during the year and the fair value of £27.3m at 31 March 2014.

Movements in the fair value of fixed to floating interest rate swaps of £22.0m was recognised in the income statement (2013: £7.3m), offset by the change in fair value of the associated bonds of £16.8m (2013: £5.1m). £13.8m (2013: £7.3m) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £227.9m (2013: £241.7m) at 31 March 2014. The remaining £3.0m (2013: £nil) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £86.2m (2013: £nil) at 31 March 2014. These bonds were valued at £89.2m (net of issue costs) when issued. All interest rate swaps have maturity dates in excess of five years.

Some interest rate swaps in respect of borrowings have break dates at which time both parties have an option to repay the swap. The first of these break dates falls in August 2016.

22. Financial instruments (continued)

(d) Hedges

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

Interest rate swaps are used to manage interest rate exposure under a policy that requires at least 85% of Yorkshire Water and Kelda Holdco Limited net debt to be fixed or index linked. At the financial year end the proportions were 110% and 105% respectively (2013: 110% and 105%).

Hedging of floating rate interest due on borrowings

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

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

The nominal value of index linked swaps total £1,289.0m and have an average life of 26 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 17 years.

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

The fair value of the indexed linked hedging instruments at 31 March 2014 was a loss of £1,446.4m (2013: £1,729.0m loss). The fair value movement in the year has been recognised in the income statement as an exceptional item because the criteria for hedge accounting were not met.

The fair value of the floating interest rate to fixed interest rate swap instruments was a loss of £25.8m (2013: £36.4m loss). The fair value movement in the year has been charged directly to reserves as hedging criteria were met.

Hedging of interest due under finance leases

The Group has a number of finance leases with a number of counterparties lasting from inception for periods up to 34 years. In most cases interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. The Group is therefore exposed to changes in 12 month LIBOR which could have a material effect on interest costs from year to year and over time. £59.2m of leases are reset semi-annually based on 6 month LIBOR.

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

The hedging instrument no longer meets the criteria to classify for hedge accounting. The Group has made a provision of £15.7m (2013: £21.6m) for the mark to market loss in the fair value of the hedging instrument at 31 March 2014.

22. Financial instruments (continued)

The cash flow hedge was assessed to be ineffective at 31 March 2014 and a credit of £5.9m (2013: £2.9m charge) relating to the hedging instrument was included in the income statement (net of deferred tax).

Fair value hedges

Combined cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the Group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The Group has made a provision of £23.1m (2013: £19.0m asset) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £43.0m (2013: £25.2m loss) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The Group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £23.7m (2013: £7.3m) for the mark to market loss in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £13.8m (2013: £5.1m) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

During 2013/14 the Group entered into a £90m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. During the year, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £5.6m (2013: £nil) for the mark to market loss in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £3.0m which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

During 2013/14 the Group entered into a £33.8m combined cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an Australian dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. During the year, the hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £7.6m (2013: £nil) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments.

22. Financial instruments (continued)

The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £6.4m which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

Foreign currency risk management

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

23. Share based payments

Share options

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

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

	2014		2013	
	Options	**Weighted average exercise price £**	Options	Weighted average exercise price £
Outstanding at the beginning of the year	-	-	6,929	7.41
Exercised during the year	-	-	(6,929)	7.41
Outstanding at the end of the year	-	-	-	-

No share options were exercised during the year. The weighted average share price at the date of exercise for share options exercised during the prior year was £10.90 (2013: £10.90).

There were no options outstanding at 31 March 2014 or 31 March 2013.

23. Share based payments (continued)

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. There were no shares granted in 2014 or 2013. The inputs into the Black Scholes model for 2007 were as follows:

	2007
Share price at date of grant	926p
Exercise price	741p
Expected volatility	25%
Expected life	3 and 5 years
Risk free rate	5.08%
Expected dividends	31p

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

24. Additional cash flow information

Analysis of movement in net debt

	At 1 April 2012 £m	Non cash movements £m	Cash movements £m	At 31 March 2013 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2014 £m**
Cash and cash equivalents	67.0	-	20.5	87.5	**-**	**(9.2)**	**78.3**
Debt due within one year	(568.6)	-	296.5	(272.1)	**-**	**8.7**	**(263.4)**
Finance leases due within one year	(6.9)	-	(1.4)	(8.3)	**-**	**(20.6)**	**(28.9)**
	(575.5)	-	295.1	(280.4)	**-**	**(11.9)**	**(292.3)**
Debt due after one year	(4,597.2)	(160.0)	(359.9)	(5,117.1)	**(53.6)**	**(70.5)**	**(5,241.2)**
Finance leases due after one year	(288.2)	-	25.3	(262.9)	**-**	**28.9**	**(234.0)**
	(4,885.4)	(160.0)	(334.6)	(5,380.0)	**(53.6)**	**(41.6)**	**(5,475.2)**
Net debt relating to continuing activities	(5,393.9)	(160.0)	(19.0)	(5,572.9)	**(53.6)**	**(62.7)**	**(5,689.2)**
Total net debt	(5,393.9)	(160.0)	(19.0)	(5,572.9)	**(53.6)**	**(62.7)**	**(5,689.2)**

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

24. Additional cash flow information (continued)

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

	2014 £m	2013 (restated) £m
Profit /(loss) from continuing operations before taxation	**313.2**	(312.6)
Share of associates' and joint ventures' loss after tax	**0.1**	0.2
Finance income	**(20.5)**	(17.9)
Finance costs	**366.6**	377.4
Exceptional finance (income)/costs (non-cash)	**(298.7)**	306.4
Movement of fair value of derivative financial instrument (energy contracts)	**6.4**	-
Depreciation and amortisation of capital grants	**246.4**	243.3
Amortisation of capitalised bid costs	**0.7**	0.6
Profit on disposal of property, plant and equipment	**(5.9)**	-
Impairment of property, plant and equipment	**0.9**	-
Decrease in inventories	**0.4**	0.3
(Increase)/decrease in trade and other receivables	**(3.0)**	13.1
Increase in trade and other payables	**3.9**	3.6
Pension contributions in excess of operating costs	**(7.5)**	(33.3)
Movements in provisions	**1.3**	(1.7)
Other movements	**0.5**	(4.1)
Cash generated from continuing operations	**604.8**	575.3

The restatement of the prior year arises from the retrospective application of IAS 19 'Employee benefits' (revised) - see note 20 for further details of the restatement to prior year.

25. Commitments

	2014 £m	2013 £m
Contracts placed at 31 March	**331.3**	326.2

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

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

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

25. Commitments (continued)

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

	2014 Land and buildings £m	**2014 Other £m**	2013 Land and buildings £m	2013 Other £m
No later than 1 year	**1.3**	**1.9**	1.4	2.1
Later than 1 year and no later than 5 years	**5.9**	**2.4**	5.1	2.9
Later than 5 years	**3.1**	**-**	2.0	0.4
	10.3	**4.3**	8.5	5.4

26. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders. These loans are included in investments analysed in note 13.

	Loans (from)/to related parties 2014 £m	Loans (from)/to related parties 2013 £m
Joint ventures		
KeyLandmark Limited	**(0.4)**	(0.4)
Micklefield Properties Limited	**0.1**	0.1
Whitehall Landing Limited	**(0.3)**	(0.3)
Whinmoor Limited	**0.6**	0.5
Templegate Developments Limited	**2.4**	2.3
KeyLand Gregory Limited	**0.3**	0.3
Aire Valley Land LLP	**7.2**	6.6
	9.9	9.1

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £0.1m (2013: £0.1m). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2014 the Group made provisions totalling £5.9m for doubtful debts relating to amounts owed by related parties (2013: £nil).

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

Compensation of key management personnel (including directors):

	2014 £m	2013 £m
Short-term benefits	**4.0**	2.9
Post-employment benefits	**0.1**	0.4
Termination payments	**-**	0.1
	4.1	3.4

27. Principal subsidiary companies

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Water services				
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Alpha) Limited	Northern Ireland	UK	Ordinary	100%
Kelda Water Services (Grampian) Limited	Scotland	UK	Ordinary	100%
Kelda Water Services (Defence) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Estates) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Wales) Limited	England & Wales	UK	Ordinary	100%
Aberdeen Environmental Services (Holdings) Limited	Scotland	UK	Ordinary	100%
Other activities				
KeyLand Developments Limited	England & Wales	UK	Ordinary	100%
KeyLand Investment Properties Limited	England & Wales	UK	Ordinary	100%
Loop Customer Management Limited	England & Wales	UK	Ordinary	100%
Holding and finance companies				
Kelda Group Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Limited	Cayman Islands	UK	Ordinary	100%
Yorkshire Water Services Bradford Finance Limited	Cayman Islands	UK	Ordinary	100%
Kelda Finance (No.1) Limited	England Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England Wales	UK	Ordinary	100%
Kelda Finance (No.3) PLC	England Wales	UK	Ordinary	100%

A full list of subsidiary companies may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

28. Ultimate controlling party

The company's immediate parent company and ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK.

Kelda Holdings Limited is the only other company to consolidate the company’s financial statements and copies of the consolidated financial statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

Kelda Eurobond Co Limited
Company balance sheet
as at 31 March 2014

	Notes	2014 £m	2013 £m
Fixed assets			
Investments	3	**1,468.3**	1,472.3
Current assets			
Debtors	4	**1.4**	1.4
Creditors: amounts falling due within one year	5	**(8.0)**	(24.7)
Net current liabilities		**(6.6)**	(23.3)
Total assets less current liabilities		**1,461.7**	1,449.0
Creditors: amounts falling due after more than one year			
Borrowings	6	**(985.5)**	(914.6)
Net assets		**476.2**	534.4
Capital and reserves			
Called up share capital	7	**750.0**	750.0
Profit and loss account	7	**(273.8)**	(215.6)
Total shareholder's funds		**476.2**	534.4

The financial statements on pages 118 to 122 were approved by approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on its behalf by:

Liz Barber
Director
Kelda Eurobond Co Limited

Registered Number: 06433768

1. Company accounting policies

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

The going concern basis has been applied in these financial statements. The accounting policies shown below have been applied consistently throughout the current and prior year.

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

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

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

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

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

Financial instruments

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

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

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

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

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

Share capital
Ordinary shares are classified as equity.

2. Profit attributable to the parent company

The result of the parent company was a loss of £58.2m (2013: £55.0m loss). Advantage has been taken of the exemption available under section 408 of the Companies' Act 2006 not to present a profit and loss account for the Company alone. The parent company profit and loss account was approved by a duly authorised committee of the board on 14 July 2014.

3. Fixed asset investments

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total investments in Group undertakings £m
Cost			
At 1 April 2012	950.0	656.5	1,606.5
Repayment of loans	-	(134.2)	(134.2)
At 1 April 2013	950.0	522.3	1,472.3
Repayment of loans	-	(4.0)	(4.0)
At 31 March 2014	**950.0**	**518.3**	**1,468.3**

A list of the major subsidiaries of the Company can be found on page 117. The directors believe that the carrying value of the investments is supported by their underlying net assets.

4. Debtors

	2014 £m	2013 £m
Amounts owed by Group undertakings	**1.4**	1.4
	1.4	1.4

5. Creditors: amounts falling due within one year

	2014	2013
	£m	£m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**-**	17.3
Other creditors	**8.0**	7.4
	8.0	24.7

Amounts owed to Group undertakings relate to loans repayable on demand. Interest is charged at LIBOR +7.0% margin.

6. Borrowings

	2014	2013
	£m	£m
Bonds issued by Kelda Eurobond Co Limited	**985.5**	914.6

These bonds are repayable 2018. The interest rates are based on a 7.0% margin plus LIBOR.

7. Reconciliation of movements in shareholder’s funds

	Called up share capital	**Profit and loss account**	**Total shareholder’s funds**
	£m	**£m**	**£m**
Shareholder’s funds at 1 April 2012	750.0	(160.6)	589.4
Loss for the financial year	-	(55.0)	(55.0)
Shareholder’s funds at 31 March 2013	750.0	(215.6)	534.4
Loss for the financial year	-	(58.2)	(58.2)
Shareholder’s funds at 31 March 2014	**750.0**	**(273.8)**	**476.2**

8. Other information

The company had no employees at 31 March 2014 (2013: none).

Details of directors' emoluments are set out in the directors' emoluments note on page 79. No elements related specifically to their work in the company.

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

The company has taken advantage of the exemption granted by paragraph 3c of FRS 8 “Related party disclosures”, not to disclose transactions with other wholly owned Group companies.

Fees payable to the company’s auditors for the audit of the company financial statements were £5,214 in the year ended 31 March 2014. Fees payable to the company’s auditors for the audit of the Company financial statements was borne by Kelda Group Limited in the year ended 31 March 2013.

9. Ultimate controlling party

The company's immediate and ultimate parent company is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK.

Kelda Holdings Limited is the only other company to consolidate the company's financial statements and copies of the Group financial statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ.

Independent Auditors' Report to the members of Kelda Eurobond Co Limited ***for the company financial statements***

Report on the company financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The company financial statements (the "financial statements"), which are prepared by Kelda Eurobond Co Limited, comprise:

- the company balance sheet as at 31 March 2014; and
- the notes to the company financial statements, which include a summary of significant accounting policies and other explanatory information.

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).
In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on pages 49, 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 ISAs (UK & 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.

Other matter

We have reported separately on the Group financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2014.

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2014