

Registered Number: 06433768

KELDA EUROBOND CO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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Contents

Business Review

Our Business	1
Business Strategy	2
Operational Performance	3
Financial Performance	11
Looking Forward	14
Principal Risks and Uncertainties	15
Appendix - KPI Glossary of Terms	21
Directors' Report for the year ended 31 March 2013	25
Statement of Directors' Responsibilities for the year ended 31 March 2013	33
Corporate Governance Report for the year ended 31 March 2013	34
Independent auditors' report to the members of Kelda Eurobond Co Limited	35
Financial Statements	37
Group Income Statement	37
Group Statement of Comprehensive Income	37
Group Balance Sheet	38
Group Statement of Changes in Equity	39
Group Cash Flow statement	40
Notes to the Group Financial Statements	41
Company Balance Sheet	100
Notes to the Company Financial Statements	101
Independent auditors' report to the members of Kelda Eurobond Co Limited	104

Kelda Eurobond Co Limited

Business Review

for the year ended 31 March 2013

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

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

Business strategy:

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

- Trusted company;
- Safe water;
- Excellent catchments, rivers and coasts;
- Water efficient regions;
- Sustainable resources; 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 2012/13 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.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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.

“Taking responsibility for the water environment for good”



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 protects public health and makes sure water is safe to drink. It ensures that water does not harm our 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.

Water efficient regions – The way the Group operates and influence others creates water efficient regions.

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

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.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

OPERATIONAL PERFORMANCE

Yorkshire Water Services Limited

Explanation of key performance indicator measures (KPIs) is provided in the Appendix to the Business Review on pages 21 to 24.

Strategic 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.

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

Customer service is an area Yorkshire Water Services Limited (YW) always seeks to excel in and a number of new initiatives were launched in 2012/13 aimed at improving performance.

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

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

In December YW achieved its highest ever score in Ofwat's Service Incentive Mechanism (SIM) survey.

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

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

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

YW's strong record for providing good customer service was just one of many factors that saw it retain its 'gold' status in Business in the Community's annual index of corporate

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

reporting. The index benchmarks companies across a range of disciplines such as community engagement, corporate governance and supply chain management.

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

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

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

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

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

Strategic objective: Safe water – The Group protects public health and makes sure water is safe to drink. The Group ensures that water does not harm customers or communities at any point in the process.

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

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

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

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

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

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

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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

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

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

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

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

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

Strategic objective: Excellent catchments, rivers and coast – The Group maintains and improves the water environment from source to sea and influence others to do the same.

	Target	Current year	Previous year
Pollution incidents (sewerage) (no. of incidents per 10,000km of sewer)	50.00	82.68	95.10
Serious pollution incidents (sewerage) (no. of incidents per 10,000km of sewer)	1.50	1.63	4.25
Pollution incidents (water) (no. of incidents per 10,000km of sewer)	0.50	3.24	6.47
Discharge permit compliance (%)	99.00	97.31	97.31
Disposal of sludge (%)	100	97.72	100

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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

There were also 247 Category 3 pollution incidents, against a target of 340.

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

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

The number of waste water treatment works failing consent during the calendar year 2012 was eight, against a target of eight. This gave a discharge permit compliance rate of 97.31%. This was the same performance as in 2011/12. Performance is considered amber against industry average calculations used by the Environment Agency (EA). The number of large sites which failed reduced in response to actions taken last year to improve their performance.

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

In 2012/13, sludge was disposed of in an unsatisfactory manner at six sites. 0.343 thousand tonnes of dry solids (ttds) out of a total of 124.2 ttds were disposed of in an unsatisfactory manner. This equated to 0.28% of the total sewage sludge disposed of during the year.

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

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

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

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

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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

In 2012/13, YW started work on a £78m scheme to upgrade Blackburn Meadows Waste Water Treatment Works in Sheffield. As part of the scheme, YW has reinvested £25m of outperformance to install a new anaerobic digestion plant that will improve the way it recycles sludge and reduces YW's carbon footprint.

Strategic objective: Water efficient regions - The way the Group operates and influences others creates water efficient regions.

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

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

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

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

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

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

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

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

Strategic objective: Sustainable resources – The Group uses sustainable resources, gets the most out of them and reduces emissions and waste.

	Target	Current year	Previous year
Greenhouse gas emissions – kilotonnes of carbon dioxide equivalent (CO ₂ e)	401	386	394

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

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

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

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

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

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

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

The financial performance of the Group is reviewed on pages 11 to 13.

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 2013 was £13.6m (2012: £13.3m), reflecting the continuing strong operating performances of existing businesses.

Kelda Water Services (KWS)

KWS is a leading UK water and waste water contract operations company. KWS continues to seek growth in its core market, providing water and waste water operations and maintenance under long term contracts. In the year, KWS had external turnover of £83.1m and operating profit of £11.9m (2012: £73.1m and £12.0m respectively).

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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

KWS Alpha had a successful year, and this was reflected in the value of deductions being reduced to 2.03% of revenue. This was due to the implementation of a number of performance improvement strategies. Energy efficiency is a key focus for the client, Northern Ireland Water, and in 2012/13 KWS Alpha maintained energy consumption within the energy consumption targets set under the contract.

KWS Defence has had a good year operationally with excellent levels of customer satisfaction from its client, the MoD. The long term trend of reducing water consumption on the sites within KWS Defence's contract area met the key criteria in the year which triggered an entitlement to rebase tariff for future years. As a result of the lower consumption, profitability was adversely impacted in the year but will be recovered in future years due to the rebased tariff agreement.

KWS Grampian overall also had a good year arising from a higher level of flows and loads through the waste water treatment works it operates. Whilst additional third party flows also assisted revenues, a reduction in the performance of its combined heat and power (CHP) generators and higher maintenance costs impacted adversely on operating costs, although overall performance and reliability improved.

Other activity in the year included the progression of several developments to support the regulated business in achievement of its renewable energy objectives, and KWS also achieved financial close on a long-term food waste Anaerobic Digestion scheme in Scotland.

Loop

2012/13 was a good year for Loop, delivering improvements to customer service and financial performance for Yorkshire Water through the achievement of Loop's Focal+, continuous improvement programme. In addition, Loop saw the business grow by taking responsibility for operational contact management.

SIM point performance improved by almost one full company SIM point. Reductions in abandoned calls played a key part in performance improvements and Loop delivered an answer rate for the year of 98%. In November 2012, 80 colleagues transferred from YW to Loop to support the drive to improve customer services bringing all the service teams together at the same site.

Billing and income performed well against plan when considering the impact on water demand of the wettest summer in 100 years. Strong income generation activities including identifying under-billed properties and the new pro-active void management process were key to supporting the income performance.

Collections continued to be challenging due to the economic climate. Despite these conditions, Loop continued to successfully review its recovery and hardship strategies to carry out the most appropriate action for its customers. As a result, Loop outperformed YW's debt target.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

In November 2012, Loop successfully launched credit account information sharing (CAIS), an industry ground breaking initiative. Yorkshire Water is now the first water company to fully share credit information on its customers with other financial institutions.

2012/13 was a great year for external recognition for both Loop's commitment to its employees and its customers through the provision of great people policies and great customer service. Best Companies accredited Loop with a 1 star rating for the 6th time and, following outstanding annual assessments, Loop continues to hold the Investors in People accreditation and Customer Service Excellence standard. In addition, Loop in partnership with Experian were successful as finalists at the Credit Today Awards.

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.

Safe-Move prides itself in offering excellent customer service to its customers and this was recognised during the year by achieving Customer First re-accreditation and by winning the Best Business Award 2012 in the National WOW Awards for Customer Service.

KeyLand Developments (KeyLand)

The property market remained subdued throughout 2012/13 with rental and sales values showing little sign of improvement in the markets in which KeyLand is active, with the exception of the prime residential development land in Harrogate.

The KeyLand business continues to focus on maximising the value of property assets released by Yorkshire Water. The sale of the first part of the Harrogate land fully met expectations and contributed to exceeding the profit target. Outline planning permission has been achieved on the remaining site, during the year, putting the company in a good position going forward.

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2013	Year ended 31 March 2012
	£m	£m
Operating profit before exceptional items and share of associates and joint ventures loss after tax	331.4	348.3
EBITDA	576.6	560.3

Explanation of measures provided in Appendix to Business Review on page 21.

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 £331.4m (2012: £348.3m). Of this, £350.5m (2012: £347.3m) is generated by Yorkshire Water's regulated water business. Note 3 to the financial statements shows the profit split by segment.

Exceptional items for the year

Exceptional items comprise the following:

	Year ended 31 March 2013	Year ended 31 March 2012
	£m	£m
Included in operating costs:		
Costs associated with a step increase in leakage performance	-	(9.6)
Onerous contract provision	-	(0.7)
Net gain in relation to pension benefit changes	22.5	-
	22.5	(10.3)
Included in finance costs:		
Movement on fair value of index linked swaps	(297.6)	(512.1)
Movement on fair value of finance lease interest rate swaps	(3.8)	(7.6)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	(2.8)	(2.6)
Movement of fair value of fixed to floating interest rate swaps and associated bonds	(2.2)	-
	(306.4)	(522.3)

During the year 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 has been recognised as exceptional income in 2012/13.

A review during 2012 of the contract to provide sewerage services to the City of Bridgeport in Connecticut, US which is due to terminate in 2013, resulted in an increase to the onerous contract provision of £0.7m in relation to expected future losses. This resulted in an exceptional cost of £0.7m in 2011/12. No further change to the provision was recorded in 2012/13.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

Following the severe winters experienced during 2009/10 and 2010/11, YW's network of water mains suffered an increase in the number of bursts and consequently experienced a higher level of leakage. During 2011/12 additional expenditure was incurred to improve leakage performance such that leakage targets could be achieved even in the event of another severe winter. The additional spend was monitored separately by management and is over and above historic levels of investment. The additional spend of £9.6m was material and was therefore recognised as an exceptional charge of £9.6m in 2011/12. No such item was recorded in 2012/13.

The movement of fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in 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 2013 resulted in a £1,729.0m provision (2012: £1,403.7m). Of the year on year movement of £325.3m, a charge of £27.7m relating to RPI accretion has been recognised within finance costs and a charge of £297.6m (2012: £512.1m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met.

The movement of fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2013 resulted in a £21.5m liability (2012: £17.8m). The year on year movement of £3.8m (2012: £7.6m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met. The interest charged or credited to the income statement in relation to these swaps is shown in note 7 of the financial statements.

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 were taken out during 2011/12 and have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2013. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £2.8m (2012: £2.6m) charge to the income statement.

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 were taken out during 2012/13 and have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2013. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £2.2m (2012: nil) charge to the income statement.

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.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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.

Treasury policy

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

The Group uses a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance its operations. Any funding required is raised by the Group treasury department in the name of the appropriate company, operating within the covenants contained within the Common Terms Agreement and other facilities agreements. Funds raised may be lent to or from each Group subsidiary at commercial rates of interest. Cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A- or A3 and a short-term rating of at least A1 or P1 issued by Standard & Poors and Moody's respectively.

Revaluation of property, plant and equipment

The Group's infrastructure assets were valued internally at 31 March 2012. This valuation was incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve after deducting a provision for deferred tax. The revaluation during the year ended 31 March 2012 resulted in a net revaluation surplus of £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 2013.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

LOOKING FORWARD

Yorkshire Water (YW)

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

Later this year the Coalition Government is expected to publish further details of its Water Bill which aims to improve competition and customer choice in the water sector. The legislation is designed to stimulate new investment and innovation in the UK's water infrastructure and to make the sector more resilient in the face of natural hazards such as floods and drought. YW will continue to play its role in helping to shape the final Bill to ensure it delivers maximum benefit for the YW's domestic and business customers and the environment.

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

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

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

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

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

By becoming more operationally and financially efficient YW aims to unlock its potential to excel in areas such as pollution prevention, customer service and water quality. In addition, one of YW's core values is that it recognises it cannot be successful on its own, so there will be a much greater emphasis on partnership working in the future to ensure YW can achieve its strategic business objectives.

There will be significant challenges too on the way to achieving YW's long-term vision – population growth, climate change and affordability to name but three.

Having the trust and support of customers and key stakeholders will be a critical success factor going forward. YW looks forward to working with all interested parties to address these issues in the future.

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

PRINCIPAL RISKS AND UNCERTAINTIES

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

Yorkshire Water

Principal risks are classified in five categories:

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

Statutory responsibilities

Risk and Compliance Statement

In YW's annual Risk and Compliance Statement to Ofwat, the following material or potentially material risks were identified:

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

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

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

Failure to deliver the capital investment programme

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

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

Business Development

Draft Water Bill

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

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

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

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

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

The PR14 Price Review

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

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

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

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

Environmental

Climate change

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

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

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

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

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

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

Financial

Commodity prices

National and international economic uncertainties may put pressure on YW's input costs. In particular, YW has significant and growing energy demands, thus meaning the business model is exposed to energy price fluctuations.

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

To mitigate this, YW is looking to reduce its reliance on grid electricity and use renewable energy where appropriate and economically viable. YW continues to seek long-term supply relationships where appropriate.

Changes in the rate of inflation

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

Construction Output Prices Index

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

To mitigate this risk, where possible construction contracts have been linked to COPI. Additionally YW’s target level of gearing is adjusted to reflect any movements in COPI compared to RPI to eliminate any impact on RCV in the subsequent price control period.

Non-recovery of customer debt

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

To mitigate this risk 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.

Operational

Asset serviceability

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

Sewer flooding

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

Water shortages

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

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

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

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

Service interruptions due to key site or installation disruption

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

Catastrophic risk

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

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

Kelda Eurobond Co Limited

Business Review (continued)

for the year ended 31 March 2013

Non-regulated businesses

Kelda Water Services

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 Management

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

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.

KeyLand

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

The main risks to KeyLand are:

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

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

Kelda Eurobond Co Limited

Business Review - Appendix

KPI Glossary of Terms

FINANCIAL KEY PERFORMANCE INDICATORS

Operating profit

Operating profit is disclosed in the income statement on page 37.

Net debt

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

Credit rating

The credit rating indicates 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.

NON FINANCIAL KEY PERFORMANCE INDICATORS

Water Supply Interruptions

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

Leakage

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

Security of Supply (SoS)

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

Kelda Eurobond Co Limited

Business Review – Appendix (continued)

KPI Glossary of Terms

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

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

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

Sewer flooding (no of incidents)

This records the number of incidents of internal sewer flooding for properties that have flooded within the last ten years.

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

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

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

Water quality – overall compliance

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

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

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

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

Kelda Eurobond Co Limited

Business Review – Appendix (continued)

KPI Glossary of Terms

Service Incentive Mechanism (SIM)

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

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

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

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

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

Serviceability

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

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

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

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

Pollution incidents

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

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

Kelda Eurobond Co Limited

Business Review – Appendix (continued)

KPI Glossary of Terms

Discharge permit compliance

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

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

Disposal of sludge

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

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

Greenhouse gas (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).

Kelda Eurobond Co Limited

Directors' Report

for the year ended 31 March 2013

The directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2013.

Financial results for the year

The loss for the year after tax was £206.6m (2012: £411.4m). The Company did not pay any dividends during the year to its parent company (2012: £nil).

Business review

A review of the development and performance of the business of the Group, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the Company are set out in the business review on pages 1 to 20.

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

Principal activities

The directors' report should be read in conjunction with the business review. The principal activities of the Group are the supply of clean water and the treatment and disposal of waste water. Yorkshire Water, the Group's regulated utility business in the UK, is responsible for both water and waste water services.

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

The principal activity of Kelda Eurobond Co Limited is that of a holding company within the Kelda Holdings Group.

Kelda Eurobond Co Limited

Directors' Report *(continued)*

for the year ended 31 March 2013

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)
Scott Auty	
Stuart Baldwin	
Liz Barber	
Paul Barr	
Kenton Bradbury	(resigned 12 July 2012)
Colin Campbell	(resigned 16 July 2013)
James Cooper	(resigned 12 July 2013)
J-G Duthie-Jackson	(resigned 21 May 2013)
Milton Fernandes	(appointed 7 December 2012)
Richard Flint	
Holly Koeppel	
Mark Lorkin	(resigned 31 January 2013)
Hamish Mackenzie	(appointed 1 June 2012)
Michael Osborne	(appointed 31 January 2013)
Jane Seto	
Kevin Whiteman	

The Group 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.

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £4.1m was committed to research and development including £3.4m 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.

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.

Kelda Eurobond Co Limited

Directors' Report (continued)

for the year ended 31 March 2013

Payment of suppliers

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

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

Employees and employment policies

The Group strives to create a positive working environment for all colleagues and places great emphasis on open two-way communications. It values involvement and engagement at all levels, recognising that everyone in the business is valued for their contribution and is a potential source of innovation and change. Internal consultation and communication processes provide the key to this involvement. The Group's values set the framework for how the Group companies expect colleagues and partners to behave with each other, with customers and with external stakeholders.

The Group communications strategy is based on a 'face to face first' approach and all messages are delivered through 'two-way' channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and the directors. Innovative online channels are also used to provide quick and easy methods of communication.

Regular employee satisfaction surveys are undertaken throughout the Group, using a quarterly online survey. People action plans focus on a range of issues including how we align our colleagues to our Group goals; how we engage our people to deliver great performance; and how we build capability.

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

The Group welcomes diversity of talent, principally through its diversity and inclusion strategy. The Group's equality and diversity, 'open to all', policy covers gender, marital status, parental status, sexual orientation, race, colour, ethnic or national origin, disability, age, religion or belief and trade union membership. Typically a male dominated Industry, there is now a gender balance in the Executive Team with a strong focus on gender diversity at all levels.

The Group continually strives to attract, select and retain the best talent. Looking to the future, there is a strong commitment and focus on proactively resourcing the business by understanding future roles and skills requirements and ensuring that plans are in place to meet the Group's needs with particular emphasis on developing the technical skills

Kelda Eurobond Co Limited

Directors' Report (continued)

for the year ended 31 March 2013

pipeline of talent. The Group's approach to talent management is inclusive and creates a framework to discuss aspirations, skills and development needs at all levels regardless of career aspirations.

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

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

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

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference whilst feeling valued for their contribution. The Group is committed to rewarding the right performance and adopts a 'total reward' approach to salary and benefits which are designed to be competitive. Performance related pay gives colleagues at all levels the opportunity to share in the success of the business, through quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Health and safety

The Group is committed to achieving high health and safety standards throughout its businesses. The management of health and safety issues operates in the context of the health and safety policy adopted by the board and the system of internal control.

The Group operates within a framework of policy procedural requirements and must have in place appropriate health and safety policies and procedures and provide necessary information, instruction, training and supervision. In addition, the Group provides occupational health, safety and welfare advisory services for employees.

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

The Group believes that good health and safety is good business and is committed to providing safe working environments, where the health, safety and wellbeing of employees is both protected and actively promoted. The Group's health, safety and wellbeing business plan sets out the route to continually achieve this through a strong occupational

Kelda Eurobond Co Limited

Directors' Report (continued)

for the year ended 31 March 2013

health and safety management system, active engagement and communication with employees and demonstrated leadership at all levels.

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

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

Environment

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

Community

The Group contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement.

Group companies provide local communities with much more than just high quality water and sewerage services.

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

The Group provide this support in three key areas:

- Education - through educating young people and local communities on the value of what YW does;
- Environment – particularly 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 local communities through employee-supported volunteering.

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

Kelda Eurobond Co Limited

Directors' Report (continued)

for the year ended 31 March 2013

Supporting communities in Hull:

YW provided financial support to more than 30 community projects in Hull over the past year. The donations, which ranged in value from £500 to £5,000, were to thank local people for their patience as the Group tried to resolve long-running odour issues at its Saltend Waste Water Treatment Works.

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

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

Hands Up:

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

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

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

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

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

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

Kelda Eurobond Co Limited

Directors' Report (continued)

for the year ended 31 March 2013

Coastalong:

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

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

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

The event proved to be such a success that it will be repeated in 2013/14.

Further information about community programmes is available on the Yorkshire Water website at <http://www.yorkshirewater.com/about-us/giving-something-back.aspx>

Objectives for 2013/14:

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

Charitable and 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 company's activities at the main political parties' annual conferences.

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

Charitable donations by the company in the year amounted to £66,000. The Group prefers to provide its charitable giving in effect by payment in kind through volunteering by its employees. Details of the Group's volunteering initiatives are given above. Cash donations during the year included:

- £50,000 to 31 community projects in Hull to thank local residents and businesses for their patience whilst odour issues at the Hull waste water treatment works were resolved;
- £6,000 to support the work of Wateraid, a charity whose mission is to transform lives by improving access to safe water, improve hygiene and sanitation in the world's poorest communities; and

Kelda Eurobond Co Limited

Directors' Report *(continued)*

for the year ended 31 March 2013

- £5,000 was given to Waterwheelers as part of a "cashmatching" scheme. Waterwheelers is a charity run by Yorkshire Water employees which organises fund-raising events in support of worthy local, regional and national causes. Good causes include Children in Need, Comic Relief, Children's Heart Foundation, Marie Curie Cancer Care, Genes for Jeans and Sports Relief. As an incentive to colleagues, the company match fund-raising efforts, pound for pound, up to a value of £5,000 per annum.

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.

Likely future developments

Future events are dealt with on page 14 in the "Looking Forward" section.

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 £657.3m 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.

Directors' statement as to disclosure of information to auditors

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

Independent auditors

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

Kelda Eurobond Co Limited

Directors' Report (continued)

for the year ended 31 March 2013

Statement of directors' responsibilities

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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.

On behalf of the Board



Richard Flint, Director
8 July 2013

Company secretary: Stuart McFarlane

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

Kelda Eurobond Co Limited

Corporate Governance Report

for the year ended 31 March 2013

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 where it is considered appropriate or where business needs required.

At the end of the year, the board comprised 12 directors (2012: 13 directors).

Internal control

The board is responsible for the Group's system of internal control and for reviewing its effectiveness. An ongoing process, in accordance with the guidance of the Turnbull Committee on Internal Control, has been established for identifying, evaluating and managing the significant risks faced by the Group and this has been in place for the year under review and up to the date of approval of the report and financial statements. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. During the year, material joint ventures have been dealt with as part of the Group for the purpose of applying the guidance.

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

In addition to this process, the business is subject to: a quarterly comprehensive review by the executive team; independent internal and external audits which were reported to the executive team and the audit committee; an extensive budget and target-setting process; a quarterly reporting and forecasting process reviewing performance against agreed objectives; appropriate delegated authority levels; established financial policies and procedures; and other risk management policies and procedures such as health and safety and environmental policies.

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

We have audited the Group financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2013 which comprise the Group income statement, the Group statement of comprehensive (loss)/income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2013.



Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
8 July 2013

Kelda Eurobond Co Limited

Group income statement

for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Group revenue	3	1,024.3	974.5
Operating costs before exceptional items	4	(692.9)	(626.2)
Exceptional items	5	22.5	(10.3)
Total operating costs		(670.4)	(636.5)
Group operating profit before share of associates and joint ventures		353.9	338.0
Share of associates' and joint ventures' loss after tax	13	(0.2)	(0.3)
Group operating profit from continuing operations	3	353.7	337.7
Investment income	7	68.4	72.6
Finance costs	7	(423.4)	(469.5)
Exceptional finance costs	5	(306.4)	(522.3)
Total finance costs		(729.8)	(991.8)
Loss from continuing operations before taxation		(307.7)	(581.5)
Tax credit	8	101.1	170.1
Loss for the year attributable to owners of the parent		(206.6)	(411.4)

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

Group statement of comprehensive (loss)/income

for the year ended 31 March 2013

	Note	2013 £m	2012 (restated) £m
Loss for the year		(206.6)	(411.4)
Other comprehensive (loss)/income:			
Losses on hedges taken to equity		(3.7)	(13.5)
Actuarial losses in respect of defined benefit pension	20	(92.6)	(79.5)
Revaluation surplus	12	-	1,069.7
Tax on items taken directly to comprehensive (loss)/income	8	38.3	(234.7)
Other comprehensive (loss)/income for the year		(58.0)	742.0
Total comprehensive (loss)/income for the year		(264.6)	330.6

See page 68 for details of the restatement to prior year

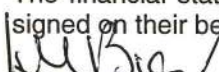
Kelda Eurobond Co Limited

Group balance sheet

as at 31 March 2013

	Note	2013 £m	2012 (restated) £m
Non-current assets			
Intangible assets	10	1,872.7	1,874.6
Financial assets	11	168.6	177.3
Property, plant and equipment	12	6,489.3	6,337.6
Investments in associated undertakings and joint ventures	13	1.2	1.4
Loans to associated undertakings and joint ventures	13	9.1	4.7
		8,540.9	8,395.6
Current assets			
Inventories	14	1.5	1.8
Trade and other receivables	15	185.7	198.8
Financial assets	22	19.0	-
Cash and cash equivalents	16	27.2	28.2
Short term deposits	16	60.3	38.8
		293.7	267.6
Total assets		8,834.6	8,663.2
Current liabilities			
Trade and other payables	17	(499.6)	(481.7)
Tax liabilities		(15.4)	(4.2)
Short-term borrowings	16	(280.4)	(575.5)
		(795.4)	(1,061.4)
Non-current liabilities			
Long-term borrowings	16	(5,380.0)	(4,885.4)
Long-term payables	17	(64.2)	(70.8)
Financial liabilities	22	(1,702.1)	(1,393.2)
Deferred grants and contributions on depreciated assets	17	(53.1)	(68.0)
Retirement benefits deficit	20	(158.4)	(99.7)
Provisions	18	(21.5)	(23.2)
Deferred tax liabilities	19	(541.3)	(676.8)
		(7,920.6)	(7,217.1)
Total liabilities		(8,716.0)	(8,278.5)
Net assets		118.6	384.7
Equity attributable to owners of the parent			
Ordinary shares	21	750.0	750.0
Hedging reserve		(41.3)	(38.0)
Revaluation reserve		844.8	852.1
Share-based payment reserve		5.2	5.2
Accumulated losses		(1,440.1)	(1,184.6)
Total equity		118.6	384.7

The financial statements on pages 37 to 99 were approved by the board of directors on 8 July 2013 and signed on their behalf by:


Liz Barber
Director

Registered Number: 06433768

Kelda Eurobond Co Limited

Group statement of changes in equity

for the year ended 31 March 2013

	Ordinary shares £m	Hedging reserve £m	Revaluation reserve (restated) £m	Share- based payment reserve £m	Accumulated losses £m	Total £m
At 31 March 2011	750.0	(27.3)	38.3	5.2	(713.3)	52.9
Loss for the year	-	-	-	-	(411.4)	(411.4)
Credit to income statement for surplus depreciation	-	-	(0.3)	-	0.3	-
Other movements	-	-	1.0	-	0.2	1.2
Total included in the Group statement of comprehensive income	-	(10.7)	813.1	-	(60.4)	742.0
At 31 March 2012 restated	750.0	(38.0)	852.1	5.2	(1,184.6)	384.7
Loss for the year	-	-	-	-	(206.6)	(206.6)
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	-	(71.2)	(58.0)
At 31 March 2013	750.0	(41.3)	844.8	5.2	(1,440.1)	118.6

See page 68 for details of the restatement to prior year

Kelda Eurobond Co Limited
Group cash flow statement
for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Cash flows from operating activities	24	575.3	524.7
Income taxes received/(paid)		15.1	(0.1)
Interest paid		(247.0)	(247.6)
Net cash generated from operating activities		343.4	277.0
Cash flows from investing activities			
Interest received		16.4	7.5
Increase in loans to associates and joint ventures		(4.3)	-
Proceeds on disposals of property, plant and equipment		3.6	1.9
Purchases of property, plant and equipment		(390.0)	(409.1)
Capital grants and contributions		11.9	11.2
Net cash used in investing activities		(362.4)	(388.5)
Cash flows from financing activities			
Borrowings raised (net of fees)		833.9	574.5
Repayment of loan to parent company		(164.8)	(124.8)
Repayments of borrowings		(605.6)	(326.5)
Repayment of obligations under finance leases and hire purchase agreements		(24.0)	(70.2)
Net cash generated from financing activities		39.5	53.0
Net increase/(decrease) in cash and cash equivalents		20.5	(58.5)
Cash and cash equivalents at the beginning of the year		67.0	125.5
Cash and cash equivalents at the end of the year	16	87.5	67.0

Kelda Eurobond Co Limited

Notes to the financial statements

for the year ended 31 March 2013

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2013 were authorised for issue by the board of directors on 8 July 2013 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 the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 March 2013.

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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 50 and 51.

The valuation of the infrastructure assets has been restated to align it with those of Yorkshire Water Services Limited as of 31 March 2012 and 1 April 2012. The effect of the restatement is £538.2m. There is no impact on the balance sheet as at 1 April 2011.

Basis of consolidation

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

Foreign currencies

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

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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 ongoing leases.

Other operating income

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

Finance income

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

Dividends payable

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

Research and development expenditure

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

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

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

Taxation

Current tax

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

Deferred tax

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

- where the deferred income tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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 it has a contractual right to charge users based on usage of the public service. The intangible asset is amortised on a straight line basis over the life of the concession agreement.

Property, plant and equipment

Residential properties, non-specialised properties and rural estates held within Land and Buildings are held at valuation. During the 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
<i>Plant and equipment</i>	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
<i>Infrastructure assets</i>	
Water mains and sewers	40 -125 years
Earth banked dams and reservoirs	200 years

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

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

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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.

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.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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.

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.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

Financial instruments

Financial assets

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

Cash and cash equivalents

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

Trade and other receivables

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

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

Trade and other payables

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

Interest bearing loans and borrowings

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

Derivative financial instruments

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

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

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

In relation to cash flow hedges, which hedge highly probable forecasted transactions and which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

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

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

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

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

Employee benefits

(a) Pension plans

(i) Defined contribution scheme

The Group operates 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.

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

A liability or asset is recognised in the balance sheet in respect of the Group's net obligations to the scheme calculated separately for each scheme. The liability or asset represents the net of the

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

present value of the defined benefit obligations at the balance sheet date, less the fair value of the scheme assets and past service costs.

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

(b) Equity settled share based payments

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

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

The Group re-assesses its estimate of the number of options that are expected to become exercisable at each balance sheet date. Any adjustments to the original estimates are recognised in the income statement. No expense is recognised for awards that did not ultimately vest, except for awards where vesting was conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition was satisfied, provided that all other performance conditions are satisfied. The scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity with members choosing whether to continue contributing. For any member who has taken that option, charges to the income statement will continue until the maturity of the scheme. For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme.

Share capital

Ordinary shares are classified as equity.

Segmental reporting

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

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

The directors' report details the activities of each segment.

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

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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

Exceptional items

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

Principal areas of judgement

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

- Assumptions relating to the retirement benefit deficit.

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

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

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

Were the discount rate used to differ by 0.25% from management's estimates, the carrying amount of pension obligations would be an estimated £57m higher or £57m lower.

- 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 6.00% and a long term inflation rate of 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 £2,016.7m. Were the discount rate used to increase by 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 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.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on page 44 of the financial statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. The Group is required to evaluate the carrying value of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

- Onerous contracts provision

The Group has made a provision in relation to expected losses from the contract to provide sewerage services to the City of Bridgeport in Connecticut, US which is due to terminate in 2013. The provision will be utilised as the contract terminates and while the expected future losses are uncertain management do not expect any material difference to the amounts provided.

- Provision for doubtful debts

At each balance sheet date, the Group evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results positively or negatively. As at 31 March 2013 current trade receivables were £114.4m, before provision for impairments.

- Taxation

The corporation tax provision of £15.4m (2012: £4.2m) 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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

New standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2012 and do not have a material impact on the Group:

- Amendment to IFRS 7 'Financial instruments: Disclosures' on transfers of assets (effective 1 July 2012)

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

- Amendment to IFRS 7 'Financial instruments disclosures – offsetting financial assets and liabilities'
- Amendment to IFRS 1 'First time adoption on fixed dates and hyperinflation'
- Amendment to IAS 12 'Income taxes – deferred tax'
- Amendment to IAS 1 'Financial statement presentation – other comprehensive income'
- Amendment to IAS 32 'Financial instruments presentation - offsetting financial assets and liabilities'
- Amendment to IFRS 1 'First time adoption – government loans'
- IFRS 9 'Financial instruments – classification and measurement'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosures of interests in other entities'
- Amendments to IFRS 10, 11 and 12 on transition guidance
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associates and joint ventures'
- IFRIC 20 'Stripping costs in the production phase of a surface mine'
- Amendment to IAS 19 'Employee benefits'
- IFRS 13 'Fair value measurement' annual improvements 2011

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

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

Year ended 31 March 2013

	UK regulated water services £m	KWS - group £m	Loop £m	KeyLand - group £m	Other companies and consolidation adjustments £m	Total continuing £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	927.0	127.0	25.9	4.9	15.3	1,100.1	(4.7)	1,095.4
Inter-company revenue	(2.8)	(43.9)	(24.2)	(0.2)	-	(71.1)	-	(71.1)
External revenue	924.2	83.1	1.7	4.7	15.3	1,029.0	(4.7)	1,024.3
Depreciation	(237.1)	(14.1)	(0.2)	-	5.5	(245.9)	-	(245.9)
Amortisation of deferred grant income	2.6	-	-	-	-	2.6	-	2.6
Other operating costs	(339.2)	(57.1)	0.2	(3.6)	(54.6)	(454.3)	4.7	(449.6)
	350.5	11.9	1.7	1.1	(33.8)	331.4	-	331.4
Exceptional items in operating costs						22.5	-	22.5
						353.9	-	353.9
Less associates' and joint ventures' interest						(0.2)	-	(0.2)
Group operating profit from continuing operations						353.7	-	353.7
Investment income								68.4
Finance costs								(423.4)
Exceptional items in finance costs								(306.4)
Loss from continuing operations before taxation								(307.7)
Tax credit								101.1
Loss for the year attributable to owners of the parent								(206.6)

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

Year ended 31 March 2013

	UK regulated water services £m	KWS - group £m	Loop £m	Keyland - group £m	Other companies and consolidation adjustments £m	Total £m
Assets						
Investments in associates and joint ventures accounted for by the equity method	12,230.2	332.6	7.3	45.9	(3,870.1)	8,745.9
Liabilities						
Net debt	(5,397.6)	(159.8)	(4.8)	(17.0)	2,529.6	(3,055.6)
	(4,393.1)	(147.1)	(0.2)	-	(1,092.5)	(5,572.9)
Net assets	2,439.5	25.7	2.3	30.1	(2,379.0)	118.6
Other information						
Capital additions	373.3	3.6	0.1	-	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 include 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. The Group's assets are located in the United Kingdom and North America. The following provides an analysis of sales, assets and capital expenditure by geographical market:

	United Kingdom £m	North America £m	Total £m
Sales revenue	1,015.1	9.2	1,024.3
Carrying value of assets (excluding cash and short-term deposits)	8,746.4	0.7	8,747.1
Capital additions to property, plant and equipment (net of grants and contributions)	404.1	-	404.1

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

Year ended 31 March 2012

	UK regulated water services £m	KWS - group £m	Loop £m	KeyLand - group £m	Other companies and consolidation adjustments £m	Total continuing £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	885.0	120.8	24.1	3.3	17.8	1,051.0	(3.0)	1,048.0
Inter-company revenue	(2.8)	(47.7)	(22.7)	(0.3)	-	(73.5)	-	(73.5)
External revenue	882.2	73.1	1.4	3.0	17.8	977.5	(3.0)	974.5
Depreciation	(225.8)	(14.1)	(0.2)	-	26.5	(213.6)	-	(213.6)
Amortisation of deferred grant income	3.3	-	-	-	-	3.3	-	3.3
Other operating costs	(312.4)	(47.0)	0.1	(3.6)	(56.0)	(418.9)	3.0	(415.9)
	347.3	12.0	1.3	(0.6)	(11.7)	348.3	-	348.3
Exceptional items in operating costs						(10.3)	-	(10.3)
						338.0	-	338.0
Less associates' and joint ventures' interest						(0.2)	-	(0.2)
Less associates' and joint ventures' tax						(0.1)	-	(0.1)
Group operating profit from continuing operations						337.7	-	337.7
Investment income								72.6
Finance costs								(469.5)
Exceptional items in finance costs								(522.3)
Loss from continuing operations before taxation								(581.5)
Tax credit								170.1
Loss for the year attributable to owners of the parent								(411.4)

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

Year ended 31 March 2012

	UK regulated water services £m	KWS - group £m	Loop £m	Keyland - group £m	Other companies and consolidation adjustments £m	Total £m
Assets						
Investments in associates and joint ventures accounted for by the equity method	11,901.7	354.0	6.6	43.0	(3,710.5)	8,594.8
Liabilities						
Net debt	(5,621.3)	(172.6)	(4.8)	(15.6)	2,996.7	(2,817.6)
	(4,128.8)	(153.0)	(0.2)	-	(1,111.9)	(5,393.9)
Net assets	2,151.6	28.4	1.6	28.8	(1,825.7)	384.7
Other information						
Capital additions	404.3	4.9	0.1	-	65.7	475.0

Net debt of £5,393.9m as noted above includes cash of £28.2m and short term deposits of £38.8m which are included in the balance sheet within total assets; and borrowings of £5,460.9m 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 include adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £844.1m 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. The Group's assets are located in the United Kingdom and North America. The following provides an analysis of sales, assets and capital expenditure by geographical market:

	United Kingdom £m	North America £m	Total £m
Sales revenue	965.6	8.9	974.5
Carrying value of assets (excluding cash and short-term deposits)	8,558.6	10.5	8,569.1
Capital additions to property, plant and equipment (net of grants and contributions)	475.0	-	475.0

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

4. Operating costs before exceptional items

	2013	2012
	£m	£m
Own work capitalised	(39.4)	(36.0)
Raw materials and consumables	31.5	28.9
Other external charges	309.7	282.1
Staff costs (note 6)	132.9	124.1
Depreciation of property, plant and equipment (note 12)		
On owned assets		
- UK infrastructure	57.4	32.9
- other assets	179.3	170.6
On assets held under finance lease		
- UK infrastructure	1.0	1.6
- other assets	8.2	8.5
Operating lease rentals - minimum lease payments		
- plant and equipment	1.9	1.9
- other	1.8	0.6
Amortisation of grants and contributions	(2.6)	(3.3)
Amortisation of intangible assets (note 10)	1.9	1.7
Research and development	0.7	0.7
Impairment of trade receivables	16.4	15.3
Other operating income	(7.8)	(3.4)
	692.9	626.2

There have been no operations classified as discontinued during the year ended 31 March 2013.

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 11, is calculated as follows:

	2013	2012
	£m	£m
Group operating profit before share of associates and joint ventures	353.9	338.0
Add back exceptional items	(22.5)	10.3
Add back depreciation and amortisation of capital grants (as above)	243.3	210.3
Add back amortisation of intangible assets (as above)	1.9	1.7
EBITDA	576.6	560.3

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

Auditors' remuneration

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

	2013 £m	2012 £m
Fees payable to the Group's auditor for the audit of the parent company and consolidated financial statements	0.2	0.3
Fees payable to the Group's auditor for other services:		
- The audit of company's subsidiaries pursuant to legislation	0.1	0.1
- Fees for other services	2.1	1.3
	2.4	1.7

5. Exceptional items

Exceptional items comprise:

	2013 £m	2012 £m
Included in operating costs:		
Onerous contract provision	-	(0.7)
Net gain in relation to pension benefit changes	22.5	-
Costs associated with a step increase in leakage performance	-	(9.6)
	22.5	(10.3)
Included in finance costs		
Movement of fair value of index linked swaps	(297.6)	(512.1)
Movement of fair value of finance lease interest rate swaps	(3.8)	(7.6)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	(2.8)	(2.6)
Movement of fair value of fixed to floating interest rate swaps and associated bonds	(2.2)	-
Movement on fair value of swaps	(306.4)	(522.3)

During the year 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 has been recognised as exceptional income in 2012/13.

A review during 2012 of the contract to provide sewerage services to the City of Bridgeport in Connecticut, US which is due to terminate in 2013, resulted in an increase to the onerous contract provision of £0.7m in relation to expected future losses. This resulted in an exceptional cost of £0.7m in 2011/12. No further change to the provision was recorded in 2012/13.

Following the severe winters experienced during 2009/10 and 2010/11, Yorkshire Water's network of water mains suffered an increase in the number of bursts and consequently experienced a higher level of leakage. During 2011/12 additional expenditure was incurred to improve leakage performance such that leakage targets could be achieved even in the event of another severe winter. The additional spend was monitored separately by management and is over and above historic levels of investment. The additional spend of £9.6m was material and was therefore recognised as an exceptional charge of £9.6m in 2011/12. No such item was recorded in 2012/13.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

The movement of fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in 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 2013 resulted in a £1,729.0m provision (2012: £1,403.7m). Of the year on year movement of £325.3m, a charge of £27.7m relating to RPI accretion has been recognised within finance costs and a charge of £297.6m (2012: £512.1m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met.

The movement of fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2013 resulted in a £21.5m liability (2012: £17.8m). The year on year movement of £3.8m (2012: £7.6m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance costs include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception. The combined cross currency interest rate swaps were taken out during 2011/12 and have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2012. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £2.8m (2012: £2.6m) charge to the income statement.

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 were taken out during 2012/13 and have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2013. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £2.2m (2012: nil) charge to the income statement.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

6. Directors and employees

	2013	2012
	Number	Number
Average monthly number of people employed by the Group		
Continuing operations:		
UK regulated water services	2,509	2,495
Other activities	875	830
	3,384	3,325

	2013	2012
	£m	£m
Total employment costs:		
Wages and salaries	103.3	96.9
Social security costs	9.6	9.3
Other pension costs	20.0	17.9
	132.9	124.1

Directors' emoluments

	2013	2012
	£m	£m
Wages and salaries	1.4	1.6
Social security costs	0.3	0.3
Other pension costs	0.2	0.2
	1.9	2.1

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

	2013	2012
	£m	£m
Wages and salaries	0.7	0.6
Social security costs	0.1	0.1
Other pension costs	0.1	0.1
	0.9	0.8

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

During 2012/13, two (2012: 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 2012/13 was £0.1m (2012: £0.1m).

No director exercised share options during the year. The Group contributed £0.1m (2012: £0.1m) to a defined contribution scheme on behalf of one director.

During 2012/13, two (2012: 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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

Two directors resigned during the financial year. No directors were compensated for loss of office during the year (2012: £nil).

7. Finance income and finance costs

	2013 £m	2012 £m
Finance income		
Interest on bank deposits	0.5	1.0
Interest receivable from index linked swaps	14.0	14.7
Interest receivable from cross currency interest rate swaps	3.4	-
Return on pension scheme assets (note 20)	50.5	56.9
Total finance income	68.4	72.6
Finance costs		
Interest payable on guaranteed bonds	181.8	176.7
Interest payable on US Dollar bonds	11.5	0.8
Amortisation of issue costs in respect of bonds	1.8	2.6
Total finance costs for bonds	195.1	180.1
Bank loans and overdrafts	38.7	43.3
Interest payable on index linked swaps	66.0	100.6
Interest payable on Eurobonds issued by Kelda Eurobond Co Limited	70.2	65.6
Finance leases	9.0	12.4
Change in fair value of financial assets	12.6	14.1
Interest payable to parent companies	2.4	7.1
Interest cost on pension scheme liabilities (note 20)	50.3	49.9
Commitment fees and miscellaneous interest	2.5	8.5
Total finance costs before capitalisation of interest	446.8	481.6
Interest capitalised	(23.4)	(12.1)
Total finance costs net of interest capitalised	423.4	469.5

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

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

8. Tax credit

	2013 £m	2012 restated £m
Current tax		
UK corporation tax at 24% (2012: 26%)	-	0.1
Adjustments in respect of prior years	(3.9)	(22.5)
Total current tax from continuing operations	(3.9)	(22.4)
Deferred tax		
UK charge for temporary differences arising and reversing in the year	(58.6)	(118.1)
Effect of change in tax rates	(14.5)	(31.5)
Adjustments in respect of prior years	(24.1)	1.9
Total deferred tax on continuing activities (note 19)	(97.2)	(147.7)
Total tax credit on loss from ordinary activities	(101.1)	(170.1)

Tax relating to items credited to equity

Deferred tax:

Actuarial losses in respect of defined benefit pension schemes	(21.3)	(19.0)
Losses on hedges	(0.5)	(2.9)
Impact of change in deferred tax rate on revaluation reserve	(16.5)	-
Revaluation of infrastructure assets	-	256.6
Tax (credit)/charge in the Group statement of comprehensive income	(38.3)	234.7

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 24% (2012: 26%) to the loss on ordinary activities before tax is as follows:

	2013 £m	2012 £m
Loss from continuing operations before taxation	(307.7)	(581.5)
Less: share of associates' and joint ventures' taxation	-	0.1
	(307.7)	(581.4)
Less: share of associates' and joint ventures' loss before tax	0.2	0.2
	(307.5)	(581.2)
Current and deferred tax on Group loss on ordinary activities at the standard UK tax rate	(73.8)	(151.1)
Effects of:		
Income not chargeable for tax purposes	(2.4)	-
Expenses not deductible for tax purposes	17.6	37.8
Change in deferred tax rate	(14.5)	(36.2)
Adjustments in respect of prior years	(28.0)	(20.6)
Group current and deferred tax credit for the year	(101.1)	(170.1)

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

Further reductions to the UK's corporation tax rate were announced in the March 2013 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 is expected to be included in the Finance Act 2013. A further reduction to the main rate to reduce the rate to 20% from 1 April 2015 will also be included in Finance Act 2013. These further changes had

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes expected to be enacted in Finance Act 2013 would be to reduce the deferred tax liability provided at the balance sheet date by £70.7m. This £70.7m decrease in the deferred tax liability would increase profit by £50.6m, increase other comprehensive income by £20.1m and increase the revaluation reserve by £33.0m.

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

	2013	2012
	£m	£m
Accelerated depreciation for tax purposes	(58.0)	(40.5)
Fair value adjustment of infrastructure assets	6.1	1.8
Roll-over relief	-	(0.1)
Financial instruments	(55.2)	(114.5)
Retirement benefit obligations	9.9	5.6
Deferred tax credit	(97.2)	(147.7)

9. Dividends

No dividends were paid during the year (2012: £nil).

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

10. Intangible assets

	Intangible rights under concession contracts £m	Capitalised bid costs £m	Goodwill £m	Total £m
Cost				
At 1 April 2011	64.9	15.9	1,800.3	1,881.1
Acquisitions in the year	2.7	-	-	2.7
At 31 March 2012 and at 31 March 2013	67.6	15.9	1,800.3	1,883.8
Accumulated amortisation				
At 1 April 2011	3.4	4.1	-	7.5
Amortisation	1.3	0.4	-	1.7
At 31 March 2012	4.7	4.5	-	9.2
Amortisation	1.3	0.6	-	1.9
At 31 March 2013	6.0	5.1	-	11.1
Net book value carried forward	61.6	10.8	1,800.3	1,872.7
Net book value brought forward	62.9	11.4	1,800.3	1,874.6

Intangible rights under concession contracts arose on the acquisition of 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.

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:

	2013	2012
Long term inflation (post 2013)	2.75%	2.75%
Discount rate (post-tax)	6.00%	6.00%

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2013 or year ended 31 March 2012.

Sensitivities to change in the above assumptions are disclosed on page 50.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

11. Financial assets

	2013 £m	2012 £m
At 1 April	177.3	186.7
Additions	3.9	4.7
Movement in fair value	(12.6)	(14.1)
At 31 March	168.6	177.3

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.

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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

12. Property, plant and equipment

	Land and Buildings £m	Infrastructure assets (restated) £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2012 (restated)	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

The valuation of the infrastructure assets has been restated to align it with those of Yorkshire Water Services Limited as of 31 March 2012 and 1 April 2012. The effect of the restatement is £538.2m to infrastructure assets and an associated deferred tax impact of £129.2m as disclosed on page 80. There is no impact on the balance sheet as at 1 April 2011.

During the year the Group capitalised borrowing costs amounting to £23.4m (2012: £12.1m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.08% (2012: 4.32%).

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

	Land and buildings £m	Infrastructure assets (restated) £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2011	1,717.6	3,134.2	2,599.8	293.9	7,745.5
Additions at cost	8.2	120.2	49.1	308.9	486.4
Grants and contributions	-	-	-	(11.4)	(11.4)
Transfers on commissioning	9.9	13.8	55.7	(79.4)	-
Surplus on revaluation (restated)	-	13.2	-	-	13.2
Disposals	(7.3)	-	(10.5)	(0.2)	(18.0)
At 31 March 2012 (restated)	1,728.4	3,281.4	2,694.1	511.8	8,215.7
Accumulated depreciation					
At 1 April 2011	400.0	1,022.0	1,311.4	-	2,733.4
Charge for the year	39.9	34.5	139.2	-	213.6
Disposals	(6.4)	-	(6.0)	-	(12.4)
Surplus on revaluation	-	(1,056.5)	-	-	(1,056.5)
At 31 March 2012	433.5	-	1,444.6	-	1,878.1
Net book amount at 31 March 2012 (restated)	1,294.9	3,281.4	1,249.5	511.8	6,337.6

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost	108.6	71.5	186.3	366.4
Depreciation	(33.6)	(24.4)	(132.1)	(190.1)
Net book amount at 31 March 2013	75.0	47.1	54.2	176.3
Cost	109.5	71.7	192.6	373.8
Depreciation	(32.1)	(23.3)	(129.4)	(184.8)
Net book amount at 31 March 2012	77.4	48.4	63.2	189.0

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 plant 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:

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

Such valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. The calculations carried out at 31 March 2012 have been reviewed at 31 March 2013 by the directors, who concluded that current book values are not materially different to current market values.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,400.6m (2012: £3,268.2m).

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

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

The revaluations were based on values as at 31 March 2009.

These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. No changes in values have been booked during the year. The Manager of Land, Property and Planning, a member of the Royal Institution of Chartered Surveyors, has reviewed the carrying value at 31 March 2013 of Yorkshire Water's non specialised land and buildings and considers that no impairment or uplift would be required to the accounts, and the current book values are not materially different to current market values.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluation surplus as at 31 March 2013 is £1,111.6m (2012: £1,121.2m restated) offset by a provision for deferred tax on the revalued amount of £266.8m (2012: £269.1m restated).

Categories of assets revalued are as follows:

	Revalued amount £m	Historical cost basis £m
Non-specialist properties	7.5	2.4
Infrastructure assets	3,355.4	2,308.7
Rural estates	43.9	0.8
Residential properties	4.7	0.1
Net book amount of asset revalued	3,411.5	2,312.0

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

	Revalued amount	Historical cost basis
	£m	£m
At 31 March 2011	54.9	3.3
Disposal of revalued assets	(0.2)	-
Aggregate depreciation	(0.3)	-
Net book amount at 31 March 2012	54.4	3.3
Disposal of revalued assets	(0.5)	-
Aggregate depreciation	(0.3)	-
Net book amount at 31 March 2013	53.6	3.3

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

	Revalued amount	Historical cost basis
	£m	£m
At cost	3,413.8	3,400.6
Aggregate depreciation	(58.4)	(1,091.9)
31 March 2013	3,355.4	2,308.7

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 31 March 2011	(4.9)	4.7	(0.2)
Share of sustained loss for the year	(0.3)	-	(0.3)
At 31 March 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 31 March 2013	(5.4)	9.1	3.7

Of the share of net liabilities in the table above of £5.4m (2012: £5.2m), the share of losses relating to certain associated undertakings of £6.6m (2012: £6.6m) is held as a provision in line with IAS27. The remaining asset balance of £1.2m (2012: £1.4m) is shown as an investment relating to the share of net assets held.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

	2013	2012
	£m	£m
Non-current assets	4.2	4.1
Current assets	4.0	4.9
Share of gross assets	8.2	9.0
Current liabilities	(13.6)	(14.2)
Share of liabilities	(13.6)	(14.2)
Share of net liabilities	(5.4)	(5.2)
Operating loss	(0.1)	-
Finance costs	(0.1)	(0.2)
Loss before tax	(0.2)	(0.2)
Tax charge	-	(0.1)
Sustained loss	(0.2)	(0.3)

14. Inventories

	2013	2012
	£m	£m
Raw materials and consumables	1.5	1.8

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

15. Trade and other receivables

	2013 £m	2012 £m
Trade receivables	114.4	113.9
Provision for impairment of trade receivables	(25.7)	(24.1)
Prepayments and accrued income	67.9	71.2
Amounts owed by parent companies	-	5.1
Other tax and social security	14.5	17.3
Other receivables	14.6	15.4
	185.7	198.8

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

Trade receivables can be analysed as follows:

	2013 £m	2012 £m
Main charges trade receivables:		
Past due but not impaired	72.8	69.8
Past due and impaired	24.4	22.8
Other trade receivables:		
Past due but not impaired	15.9	20.0
Past due and impaired	1.3	1.3
	114.4	113.9

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

	2013 £m	2012 £m
Main charges trade receivables:		
Less than one year overdue	49.8	47.9
Between one and two years overdue	12.7	12.1
Between two and three years overdue	5.5	5.5
Between three and four years overdue	2.7	2.4
More than four years overdue	2.1	1.9
Other trade receivables:		
Less than one year overdue	15.8	19.9
Between one and two years overdue	-	0.1
Between two and three years overdue	0.1	-
	88.7	89.8

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

	2013	2012
	£m	£m
Main charges trade receivables:		
Less than one year overdue	10.0	9.1
Between one and two years overdue	5.0	4.7
Between two and three years overdue	3.5	3.6
Between three and four years overdue	3.2	2.9
More than four years overdue	2.7	2.5
Other trade receivables:		
Less than one year overdue	1.3	1.3
	25.7	24.1

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

	2013	2012
	£m	£m
Provision brought forward	24.1	22.7
Provision for impairment	16.4	15.3
Amounts written off	(14.8)	(13.9)
Provision at 31 March 2013	25.7	24.1

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

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

16. Financing

(i) Cash and short-term deposits

	2013 £m	2012 £m
Cash at bank and in hand	27.2	28.2
Short-term deposits	60.3	38.8
	87.5	67.0

At 31 March 2013, the Group had available £657.3m (2012: £606.0m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2013 £m	2012 £m
Short term borrowings:		
Bank loans	207.1	296.0
Bank loans under Kelda Finance facility	65.0	-
Bank loans under Senior Holdco facility	-	255.3
Loan notes	-	17.3
Finance leases	8.3	6.9
	280.4	575.5

	2013 £m	2012 £m
Long term borrowings:		
Bank loans	492.3	456.0
Fixed rate guaranteed bonds due in less than 5 years	447.3	-
Fixed rate guaranteed bonds due in more than 5 years	1,794.6	1,803.1
Index linked guaranteed bonds due in more than 5 years	1,048.0	963.9
RPI uplift on index linked bonds	92.1	64.5
Fixed rate US Dollar bonds due in more than 5 years	309.1	283.7
Eurobonds issued by Kelda Eurobond Co Limited	914.6	844.1
Other loans	1.9	2.9
Finance leases	262.9	288.2
Amounts owed to parent companies	17.2	179.0
	5,380.0	4,885.4

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

6% guaranteed bonds 2017 £447.3m (2012: £446.7m)

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 £273.3m (2012: £273.0m)

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 (2012: £197.0m)

These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

5.375% guaranteed bonds 2023 (Stranded bonds) £4.1m (2012: £3.9m)

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 (2012: £6.2m)

These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

6.454% guaranteed bonds 2027 (Exchange bonds) £124.6m (2012: £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 (2012: £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 (2012: £0.6m)

These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

5.5% guaranteed bonds 2037 £182.1m (2012: £182.0m)

These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

6.375% guaranteed bonds 2039 £305.7m (2012: £306.2m)

These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

5.75% guaranteed bonds 2020 £196.2m (2012: £nil)

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 £241.7m (2012: £nil)

These bonds were issued on 1 August 2012 are repayable in one instalment on 1 August 2029. The interest is charged at 3.625%.

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

3.3066% index linked guaranteed bonds 2033 (Exchange bonds) £163.2m (2012: £158.8m)

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 £314.5m (2012: £305.6m)

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 £51.4m (2012: £49.8m)

These bonds are repayable in one instalment on 30 December 2041. The interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.8225% index linked guaranteed bonds 2050 £65.5m (2012: £63.0m)

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.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

1.462% index linked guaranteed bonds 2051 £111.1m (2012: £106.2m)

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 £83.3m (2012: £80.0m)

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 £113.7m (2012: £108.8m)

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 £95.5m (2012: £91.7m)

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 £51.0m (2012: £nil)

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 due in more than 5 years

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.

- \$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).

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

Bank loans

Bank loans within long term borrowings relates to facilities held with European Investment Bank, repayable as £28.6m (1 - 2 years), £103.5m (2 – 5 years) and £204.0m (more than 5 years), and PFI loans relating to service concession contracts repayable as £6.1m (1 – 2 years), £15.1m (2 – 5 years) and £135.0m (more than 54 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 3.315% (2012: 3.219%).

Eurobonds issued by Kelda Eurobond Co Ltd

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

Amounts owed to parent companies

These loans 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.

(iii) Finance leases

	Minimum lease payments 2013	Minimum lease payments 2012
	£m	£m
Amounts payable under finance leases:		
No later than 1 year	11.0	40.1
Later than 1 year and no later than 5 years	228.7	227.5
Later than 5 years	145.5	210.9
	385.2	478.5
Less: future finance charges	(114.0)	(183.4)
Present value of lease obligations	271.2	295.1
Amount due for settlement within 12 months	8.3	6.9
Amount due for settlement after 12 months	262.9	288.2
	271.2	295.1

All lease obligations are denominated in sterling.

The weighted average lease term is 13.0 years (2012: 13.5 years). For the year ended 31 March 2013 the average effective borrowing rate was 2.6% (2012: 2.4%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

17. Trade and other payables

	2013	2012
	£m	£m
Amounts falling due within one year:		
Trade payables	60.5	58.6
Capital payables	100.9	103.0
Deferred grants and contributions on depreciated property, plant and equipment	2.9	2.9
Social security and payroll deductions	2.8	2.6
Receipts in advance	51.0	48.9
Amounts owed to parent company	-	0.7
Interest payable	98.4	97.6
Deferred income	148.9	132.1
Other payables	34.2	35.3
	499.6	481.7
Amounts falling due after more than one year:		
Deferred grants and contributions on depreciated property, plant and equipment	53.1	68.0
Interest payable	50.8	57.4
Other payables	13.4	13.4
	117.3	138.8

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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

18. Provisions

	£m
At 31 March 2011	24.8
Provision created in relation to losses sustained in associated undertakings	0.2
Provision created in relation to an onerous contract (note 5)	0.7
Utilised in year	(2.5)
At 31 March 2012	23.2
Provision created in relation to losses sustained in associated undertakings	0.1
Utilised in year	(1.8)
At 31 March 2013	21.5

Provisions include £14.2m (2012: £16.0m) in relation to expected losses from the contract to provide sewerage services to the City of Bridgeport in Connecticut, US which is due to terminate in 2013. The provision will be utilised as the contract terminates and while the expected future losses are uncertain management do not expect any material difference to the amounts provided.

In addition provisions include £6.6m in relation to losses relating to certain associated undertakings (note 13).

19. Deferred tax

	Accelerated capital allowances (restated)	Fair value adjustment of infrastructure assets	Revaluation reserve (restated)	Roll-over relief	Financial instruments	Pension obligations	Total (restated)
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2011	757.7	37.4	13.3	0.9	(207.4)	(11.1)	590.8
(Credit)/charge to income statement	(40.5)	1.8	-	(0.1)	(114.5)	5.6	(147.7)
Charge to revaluation reserve	-	-	384.8	-	-	-	384.8
Credit to equity	-	-	-	-	(2.9)	(19.0)	(21.9)
At 31 March 2012	717.2	39.2	398.1	0.8	(324.8)	(24.5)	806.0
Restatement	(0.5)	-	(128.7)	-	-	-	(129.2)
At 31 March 2012 restated	716.7	39.2	269.4	0.8	(324.8)	(24.5)	676.8
(Credit)/charge to income statement	(58.0)	6.1	-	-	(55.2)	9.9	(97.2)
Credit to equity	-	-	(16.5)	-	(0.5)	(21.3)	(38.3)
At 31 March 2013	658.7	45.3	252.9	0.8	(380.5)	(35.9)	541.3

Deferred tax has been restated as of 31 March 2012 and 1 April 2012 as a result of the restatement of the infrastructure assets valuation at this date. The effect of the restatement is £129.2m.

The Group has unrecognised capital losses of £17.3m (2012: £12.8m) which are available indefinitely against future eligible capital profits of the Group. No deferred tax asset has been recognised on capital losses as their utilisation is not currently foreseen.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

20. Pensions

(i) Description of schemes

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

Contributions over the year ended 31 March 2013 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The majority of members now pay contributions through a salary sacrifice arrangement with effect from 1 October 2008. Following the actuarial valuation in March 2010 the Group contributed 23.6% of pensionable pay in respect of the majority of members. The Group also paid lump sum deficit contributions of £1.0m per month in the year to 31 March 2013.

An accrual for unfunded benefits of £7.2m has been included in the Group's financial statements at 31 March 2013 (2012: £5.5m).

KGPP has entered into an inflation mechanism with the Group as part of the funding and de-risking measures that have taken place during the year. This has been entered into as part of a de-risking mandate agreed with the Pension 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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

(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.

	2013	2012
	%	%
Inflation	3.4	3.3
Rate of increase in salaries	4.4	4.3
Rate of increase to pensions in payment and deferred pensions	3.4	3.3
Discount rate for scheme liabilities	4.4	5.1
Life expectancy for a male pensioner aged 60 (in years)	26.7	26.6
Projected life expectancy at age 60 for male aged 40 (in years)	28.7	28.7

(iii) Scheme assets and liabilities

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

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

	2013	Expected long term rate of return
	Market value	return
	£m	%
Fair value of scheme assets		
Equities	438.5	N/A
Bonds	400.0	N/A
Property	76.3	N/A
Other	106.1	N/A
Total value of assets	1,020.9	
Present value of scheme liabilities	(1,179.3)	
Pension liability	(158.4)	

	2012	Expected long term rate of return
	Market value	return
	£m	%
Fair value of scheme assets		
Equities	539.2	6.25
Bonds	279.6	4.25
Property	78.7	6.25
Other	6.5	3.50
Total value of assets	904.0	
Present value of scheme liabilities	(1,003.7)	
Pension liability	(99.7)	

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

The Group's actual return on the schemes' assets was a gain of £122.5 million (2012: £31.3 million).

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

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

	2013 £m	2012 £m
Analysis of amount charged to operating costs:		
Current service cost	17.6	16.2
Past service cost	0.5	0.5
Exceptional costs associated with improved commutation factors (note 5)	20.6	-
Analysis of amount (credited)/charged to other investment income/finance costs:		
Expected return on pension scheme assets	(50.5)	(56.9)
Interest on pension scheme liabilities	50.3	49.9
Exceptional gain on plan curtailments (note 5)	(43.1)	-
Amounts (credited)/charged to the income statement before taxation	(4.6)	9.7
Analysis of amounts recognised in Group statement of comprehensive income:		
Actual return less expected return on pension scheme assets	72.0	(25.6)
Changes in assumptions underlying the present value of the scheme's liabilities	(164.6)	(53.9)
Actuarial loss recognised in the Group statement of comprehensive income	(92.6)	(79.5)

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 2014 are expected to be £24.8m for the Group (2012: £29.7m).

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2013, a cumulative pre-tax loss of £228.6m (2012: £136.0m) had been recorded directly in the statement of comprehensive income.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

	2013 £m	2012 £m
Movement in liabilities during the year:		
Liabilities at beginning of year	(1,003.7)	(914.9)
Movement in the year		
- plan participants' contributions	(0.1)	(0.1)
- current service cost	(17.6)	(16.2)
- interest cost	(50.3)	(49.9)
- past service cost	(0.5)	(0.5)
- exceptional costs associated with improved commutation factors	(20.6)	-
- benefits paid	35.0	31.8
- actuarial loss	(164.6)	(53.9)
- exceptional gain on plan curtailment	43.1	-
Pension liabilities at year end	(1,179.3)	(1,003.7)
Movement in assets during the year:		
Assets at beginning of year	904.0	874.9
Movement in year		
- plan participants' contributions	0.1	0.1
- employer contributions	29.3	29.5
- other finance income	50.5	56.9
- actuarial gain/(loss)	72.0	(25.6)
- benefits paid	(35.0)	(31.8)
Pension assets at year end	1,020.9	904.0

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

(vi) History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of scheme assets	1,020.9	904.0	874.9	842.0	634.5
Present value of defined benefit obligation	(1,179.3)	(1,003.7)	(914.9)	(909.5)	(666.6)
Deficit in the scheme	(158.4)	(99.7)	(40.0)	(67.5)	(32.1)
Experience gains and losses on scheme liabilities	5.3	-	22.5	-	5.9
Experience gains and losses on scheme assets	72.0	(25.6)	3.4	173.6	(200.0)

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

(vii) Defined contribution scheme

The Group ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007. The total charged to the income statement for the defined contribution schemes for the year ended 31 March 2013 was £1.2m (2012: £1.2m).

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

21. Ordinary shares

	Ordinary shares of 1p		Ordinary shares of £1	
	Number	1p shares £	Number	£1 shares £
Issued and fully paid				
At 31 March 2012 and 31 March 2013	1	0.01	750,000,000	750,000,000

Employee Share Ownership Trust

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

Previously, shares were held in an ESOT, funded by interest free loans from the Group, which held shares to meet these schemes. At 31 March 2013 and 2012, the ESOT held no shares in Kelda Group Limited. All future schemes will be met by the issue of new shares in Kelda Group Limited, which will then be repurchased by the Group.

Details of the schemes which remain outstanding are given below.

Options granted and outstanding at 31 March

	Date of grant	2013 Number of shares	2012 Number of Shares	Option price	Normal exercise date
Sharesave schemes					
Five year schemes	28 December 2006	-	6,926	741.0p	March to August 2012

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

22. Financial instruments

Treasury policy is described in the financial review on page 13. 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:

	2013 Less than one year £m	2013 More than one year £m	2013 Total £m	2012 Less than one year £m	2012 More than one year £m	2012 Total £m
Financial assets:						
Combined cross currency interest rate swaps	-	19.0	19.0	-	-	-
	-	19.0	19.0	-	-	-
Financial liabilities:						
Finance lease interest swaps	-	(21.5)	(21.5)	-	(17.8)	(17.8)
Index linked swaps	-	(1,636.9)	(1,636.9)	-	(1,339.3)	(1,339.3)
Combined cross currency interest rate swaps	-	-	-	-	(3.4)	(3.4)
Fixed to floating interest rate swaps	-	(7.3)	(7.3)	-	-	-
Other interest rate swaps	-	(36.4)	(36.4)	-	(32.7)	(32.7)
	-	(1,702.1)	(1,702.1)	-	(1,393.2)	(1,393.2)
Net debt:						
Cash and short term deposits	87.5	-	87.5	67.0	-	67.0
Borrowings	(280.4)	(5,380.0)	(5,660.4)	(575.5)	(4,885.4)	(5,460.9)
	(192.9)	(5,380.0)	(5,572.9)	(508.5)	(4,885.4)	(5,393.9)

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 holds index linked swaps with a mark to market loss of £1,729.0m. £1,636.9m is shown as index linked swaps as in the table above; the remaining £92.1m is shown within borrowings in note 16.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

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

Year ended 31 March 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	31.9	31.9	690.9	850.4
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	202.7	1,149.1	2,904.4	4,891.2
Non-interest bearing financial liabilities							
Trade payables	60.5	-	-	-	-	-	60.5
Other payables	236.3	-	-	-	-	-	236.3
	296.8	-	-	-	-	-	296.8
Financial assets							
Floating rate							
Cash and short term deposits	(87.5)	-	-	-	-	-	(87.5)
Loans to associates/joint ventures	(9.1)	-	-	-	-	-	(9.1)
	(96.6)	-	-	-	-	-	(96.6)
Non-interest bearing financial assets							
Trade receivables	(88.7)	-	-	-	-	-	(88.7)
Other tax and social security	(14.5)	-	-	-	-	-	(14.5)
	(103.2)	-	-	-	-	-	(103.2)

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

Year ended 31 March 2012

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	58.9	49.5	42.3	41.0	39.9	165.4	397.0
Guaranteed bonds	113.1	113.1	113.1	113.1	113.1	2,930.0	3,495.5
US Dollar bonds	11.3	11.3	11.3	11.3	11.3	345.5	402.0
Other interest rate swaps	4.4	4.3	3.9	3.6	3.3	20.9	40.4
Finance lease swaps	2.5	2.0	2.0	2.0	1.8	25.2	35.5
	190.2	180.2	172.6	171.0	169.4	3,487.0	4,370.4
Floating rate							
Index linked guaranteed bonds	19.0	19.0	19.0	19.0	19.0	1,542.8	1,637.8
US Dollar bonds	1.1	1.1	1.1	1.1	1.1	76.7	82.2
Loans from parent companies	179.0	-	-	-	-	-	179.0
Bank loans	8.5	8.5	8.9	9.1	16.6	184.9	236.5
Bank loans under Senior Holdco facility	265.5	-	-	-	-	-	265.5
Combined cross currency interest rate swaps	8.4	8.4	8.4	8.4	8.4	40.8	82.8
Eurobonds issued by Kelda Eurobond Co Limited	74.8	72.6	74.0	76.6	76.6	997.4	1,372.0
Index linked swaps	21.9	21.9	21.9	21.9	21.9	520.5	630.0
Finance leases	10.6	38.9	44.7	51.3	58.8	203.2	407.5
	588.8	170.4	178.0	187.4	202.4	3,566.3	4,893.3
Non-interest bearing financial liabilities							
Trade payables	58.6	-	-	-	-	-	58.6
Other payables	238.5	-	-	-	-	-	238.5
	297.1	-	-	-	-	-	297.1
Financial assets							
Floating rate							
Cash and short term deposits	(67.0)	-	-	-	-	-	(67.0)
Loans to associates/joint ventures	(4.7)	-	-	-	-	-	(4.7)
	(71.7)	-	-	-	-	-	(71.7)
Non-interest bearing financial assets							
Trade receivables	(89.8)	-	-	-	-	-	(89.8)
Other tax and social security	(17.3)	-	-	-	-	-	(17.3)
	(107.1)	-	-	-	-	-	(107.1)

(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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

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

Credit risk

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

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

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

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

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

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

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

	2013	Group	2013	Company
	£m	2012	£m	2012
		£m		£m
Cash and short term deposits (see note 16)	87.5	67.0	-	-
Trade and other receivables (see note 15)	185.7	198.8	1.4	14.5
Financial assets	19.0	-	-	-
Investments	10.3	6.1	1,472.3	1,606.5

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,

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

whilst maintaining excess liquidity potentially exposes the Group to the risk of inefficient funding costs.

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

At 31 March 2013 the Group had £744.8m of available liquidity (2012: £673.0m) which comprised £87.5m available cash and short term deposits (2012: £67.0m) and £657.3m of undrawn committed borrowing facilities (2012: £606.0m).

The maturity profile on page 87 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:

	2013	2012
	£m	£m
Impact on profit before tax		
1% increase in RPI leading to a decrease in profit	(27.3)	(26.2)
1% decrease in RPI leading to an increase in profit	27.3	26.2
1% increase in LIBOR leading to an increase in profit	5.5	1.6
1% decrease in LIBOR leading to a decrease in profit	(5.5)	(1.6)

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

(c) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the book values and the fair values of the Group's financial assets and liabilities at 31 March.

	2013	2013	2012	2012
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments financing the Group's operations				
Financial assets held at amortised cost				
Cash and short term deposits	(87.5)	(87.5)	(67.0)	(67.0)
Financial assets from concession arrangements	(168.6)	(168.6)	(177.3)	(177.3)
Loans to associates/joint ventures	(9.1)	(9.1)	(4.7)	(4.7)
Financial assets designated as Fair Value Through Profit and Loss				
Combined cross currency interest rate fair value swaps	(19.0)	(19.0)	-	-
Financial liabilities				
Designated as Fair Value Through Profit and Loss				
Fixed rate interest rate swaps in respect of finance leases	21.5	21.5	17.8	17.8
Combined cross currency interest rate fair value swaps	-	-	3.4	3.4
Fixed rate US Dollar bonds	309.1	309.1	283.7	283.7
Fair value interest rate swaps	7.3	7.3	-	-
Index linked swaps	1,729.0	1,729.0	1,403.7	1,403.7
Designated as Fair Value Through Other Comprehensive Income				
Other interest rate swaps	36.4	36.4	32.7	32.7
Financial liabilities held at amortised cost				
Fixed rate bank loans	764.4	818.0	752.0	796.5
Bank loans under Senior Holdco facility	-	-	255.3	255.3
Eurobonds issued by Kelda Eurobond Co Limited	914.6	914.6	844.1	844.1
Fixed rate sterling bonds	2,241.9	2,722.9	1,803.1	2,152.7
Index linked sterling bonds	1,048.0	1,172.5	963.9	1,020.1
Finance leases	271.2	271.2	295.1	295.1
Amounts owed to parent companies	17.2	17.2	179.0	179.0
Other loans	1.9	1.9	20.3	20.3

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

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

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

Movements in the fair value of index linked swaps in respect of borrowings of £325.3m were recognised in the income statement (2012: £536.5m). Of this movement a charge of £297.6m (2012: credit of £512.1m) is recognised in exceptional finance costs and a charge of £27.7m (2012: £24.4m) 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 borrowings and finance leases of £3.8m were recognised in the income statement (2012: £7.6m). Income from the movement in fair value of combined cross currency interest rate swaps of £22.4m was recognised in the income statement (2012: £3.4m charge), offset by the change in fair value of the associated bonds of £25.2m (2012: £0.8m income). All interest rate swaps have maturity dates in excess of five years.

Some interest rate swaps in respect of borrowings have break dates at which time both parties have an option to repay the swap. All break dates are in excess of five years.

(d) Hedges

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

Interest rate swaps are used to manage interest rate exposure under a policy that requires at least 85% of Yorkshire Water and Kelda Holdco Limited net debt to be fixed or index linked. At the financial year end the proportions were 110% and 105% respectively (2012: 111% 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 £1,289m and have an average life of 37 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 18 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 2013 was a loss of £1,729.0m (2012: £1,403.7m 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 £36.4m (2012: £32.7m 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

Yorkshire Water has a number of finance leases with a number of counterparties lasting from inception for periods up to 35 years. In most cases interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. Yorkshire Water is therefore exposed

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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, Yorkshire Water has entered into a number of floating to fixed interest rate swaps.

The hedging instrument no longer meets the criteria to classify for hedge accounting. The fair value of the hedging instrument at 31 March 2013 was a £21.5m loss (2012: £17.8m loss).

The cash flow hedge was assessed to be ineffective at 31 March 2013 and a charge of £2.9m (2012: £5.6m 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 fair value of the combined cross currency interest rate swap instruments was a gain of £19.0m (2012: £3.4m loss). 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 loss of £25.2m (2012: £0.8m gain) 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.

During 2012/13 the Group entered into 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. During the year, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The fair value of the fixed to floating interest rate swaps was a loss of £7.3m. 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 £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.

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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

23. Share based payments

Share options

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

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

	2013		2012	
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at the beginning of the year	6,929	7.41	117,423	6.99
Lapsed during the year	-	-	(1,528)	6.86
Exercised during the year	(6,929)	7.41	(108,969)	6.97
Outstanding at the end of the year	-	-	6,926	7.41
Of which exercisable at the end of the year	-	-	6,926	7.41

The weighted average share price at the date of exercise for share options exercised during the year was £10.90 (2012: £10.90).

There were no options outstanding at 31 March 2013. The options outstanding at 31 March 2012 had a weighted average exercise price of £7.41, and a weighted average remaining contractual life of less than one year.

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. There were no shares granted in 2013 or 2012. 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.

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

24. Additional cash flow information

Analysis of movement in net debt

	At 31 March 2011 £m	Non cash movements £m	Cash movements £m	At 31 March 2012 £m	Non cash movements £m	Cash movements £m	At 31 March 2013 £m
Cash and cash equivalents	125.5	-	(58.5)	67.0	-	20.5	87.5
Debt due within one year	(148.2)	-	(420.4)	(568.6)	-	296.5	(272.1)
Finance leases due within one year	(17.5)	-	10.6	(6.9)	-	(1.4)	(8.3)
	(165.7)	-	(409.8)	(575.5)	-	295.1	(280.4)
Debt due after one year	(4,716.0)	(178.4)	297.2	(4,597.2)	(160.0)	(359.9)	(5,117.1)
Finance leases due after one year	(347.8)	-	59.6	(288.2)	-	25.3	(262.9)
	(5,063.8)	(178.4)	356.8	(4,885.4)	(160.0)	(334.6)	(5,380.0)
Net debt relating to continuing activities	(5,104.0)	(178.4)	(111.5)	(5,393.9)	(160.0)	(19.0)	(5,572.9)
Total net debt	(5,104.0)	(178.4)	(111.5)	(5,393.9)	(160.0)	(19.0)	(5,572.9)

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

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

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

	2013 £m	2012 £m
Loss from continuing operations before taxation	(307.7)	(581.5)
Share of associates' and joint ventures' loss after tax	0.2	0.3
Finance income	(68.4)	(72.6)
Finance costs	423.4	469.5
Exceptional finance costs (non-cash)	306.4	522.3
Depreciation and amortisation of capital grants	243.3	210.3
Decrease/(increase) in inventories	0.3	(0.2)
Decrease in trade and other receivables	13.1	7.3
Increase/(decrease) in trade and other payables	3.6	(19.5)
Pension contributions in excess of operating costs	(33.7)	(12.8)
Movements in provisions	(1.7)	1.1
Other movements	(3.5)	0.5
Cash generated by continuing operations	575.3	524.7

25. Commitments

	2013 £m	2012 £m
Contracts placed at 31 March	326.2	267.6

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

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

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

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

	2013 Land and buildings £m	2013 Other £m	2012 Land and buildings £m	2012 Other £m
No later than 1 year	1.4	2.1	0.6	2.0
Later than 1 year and no later than 5 years	5.1	2.9	4.9	3.2
Later than 5 years	2.0	0.4	3.5	-
	8.5	5.4	9.0	5.2

Kelda Eurobond Co Limited
Notes to the financial statements (continued)
for the year ended 31 March 2013

26. Related parties

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

	Sales to related parties 2013 £m	Loans to/(from) related parties 2013 £m	Sales to related parties 2012 £m	Loans to/(from) related parties 2012 £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	-	0.5	-	0.2
Templegate Developments Limited	-	2.3	-	0.3
KeyLand Gregory Limited	-	0.3	-	0.8
Aire Valley Land LLP	-	6.6	-	4.0
	-	9.1	-	4.7

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £0.1m (2012: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2013 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2012: £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)

	2013 £m	2012 £m
Short-term benefits	2.9	2.7
Post-employment benefits	0.4	0.4
Termination payments	0.1	0.2
	3.4	3.3

27. Post balance sheet events

During April 2013, the Group raised \$50m of Australian dollar fixed rate bonds repayable in one lump sum on 15 August 2023. These bonds incur interest at 5.875%. During May 2013 the Group raised £90m of sterling fixed rate class B bonds repayable in one lump sum on 12 December 2033. These bonds incur interest at 4.965%.

Kelda Eurobond Co Limited

Notes to the financial statements (continued)

for the year ended 31 March 2013

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

Group companies

as at 31 March 2013

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%

Kelda Eurobond Co Limited

Company balance sheet

as at 31 March 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Investments	3	1,472.3	1,606.5
Current assets			
Debtors	4	1.4	14.5
Creditors: amounts falling due within one year	5	(24.7)	(187.5)
Net current liabilities		(23.3)	(173.0)
Total assets less current liabilities		1,449.0	1,433.5
Creditors: amounts falling due after more than one year			
Long term borrowings		(914.6)	(844.1)
Net assets		534.4	589.4
Capital and reserves			
Called up share capital	6	750.0	750.0
Profit and loss account	6	(215.6)	(160.6)
Total shareholder's funds		534.4	589.4

The financial statements on pages 100 to 105 were approved by the board of directors on 8 July 2013 and signed on their behalf by:



Liz Barber
Director
Kelda Eurobond Co Limited

Registered Number: 06433768

Kelda Eurobond co Limited

Notes to the company financial statements

for the year ended 31 March 2013

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.

Kelda Eurobond Co Limited

Notes to the company financial statements (continued)

for the year ended 31 March 2013

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 £55.0m (2012: £50.8m loss). Advantage has been taken of the exemption available under section 408 of the Companies' Act 2006 not to present a profit and loss account for the Company alone. The parent company profit and loss account was approved by the board on 8 July 2013.

3. Fixed asset investments

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total investments in Group undertakings £m
Cost			
At 31 March 2011	950.0	759.1	1,709.1
Repayment of loans	-	(102.6)	(102.6)
At 31 March 2012	950.0	656.5	1,606.5
Repayment of loans	-	(134.2)	(134.2)
At 31 March 2013	950.0	522.3	1,472.3

A list of the major subsidiaries of the Company can be found on page 99. The directors believe that the carrying value of the investments is supported by their underlying net assets.

4. Debtors

	2013 £m	2012 £m
Amounts owed by group undertakings	1.4	14.5
	1.4	14.5

Kelda Eurobond Co Limited
Notes to the company financial statements (continued)
for the year ended 31 March 2013

5. Creditors: amounts falling due within one year

	2013 £m	2012 £m
Amounts falling due within one year:		
Amounts owed to group undertakings	17.3	179.7
Other creditors	7.4	7.8
	24.7	187.5

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

6. Reconciliation of movements in shareholder's funds

	Called up share capital £m	Profit and loss account £m	Total shareholder's funds £m
Shareholder's funds at 31 March 2011	750.0	(109.8)	640.2
Loss for the financial year	-	(50.8)	(50.8)
Shareholder's funds at 31 March 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

7. Other information

The company had no employees at 31 March 2013 (2012: none).

Details of directors' emoluments are set out in the directors' emoluments note on page 61. No elements related specifically to their work in the company.

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

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

Auditors' remuneration has been borne by Kelda Group Limited.

8. 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

We have audited the parent company financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2013 which comprise the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2013.



Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
8 July 2013

