Registered Number: 99329

KELDA HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 MARCH 2013

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Kelda Holdings Limited
Business Review
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.



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

A 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.

Safe water – The Group protects public health and make 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 our services to customers at a price they are willing and able to pay, whilst providing investors with returns that attract long-term investment.

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

Kelda Holdings Limited
Business Review
for the year ended 31 March 2013

OUR BUSINESS

Kelda Holdings 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'.

UK Service Operations
Kelda Water Services
Kelda Water Services Limited (KWS) is a major participant in the UK water and waste water contract operations market, with contracts during the year 2012/13 in England, Scotland and Northern Ireland.

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

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

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

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

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: A 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 UKSCI 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

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. For example, 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%

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

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

However, two areas of focus have been identified which 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 is a greater emphasis on effective catchment management, assessment of the possibility of improving existing treatment processes to remove metaldehyde and research and development into future treatment options.

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

	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.

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 year 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 fewer 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 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 company 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.

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 gains 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 Environment Agency (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 out-performed 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.

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_2e)	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 – CO_2llaborate – 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).

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 97%. 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.

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.

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2013	Year ended 31 March 2012
	£m	£m
Operating profit before exceptional items	**329.8**	345.9
EBITDA	**575.0**	557.9

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 £329.8m (2012: £345.9m). Of this, £341.3m (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 £m	Year ended 31 March 2012 £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.

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 is 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.

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

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

Revaluation of property, plant and equipment

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

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.

YW aims to 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 in this period of austerity.

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 achieves 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.

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 areas of risk 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 now 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 ten per cent of turnover or other sanctions.

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.

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.

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 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.

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.

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.

FINANCIAL KEY PERFORMANCE INDICATORS

Operating profit

Operating profit is disclosed in the income statement on page 57.

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.

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

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

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

Sewer flooding (no of incidents)

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

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

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

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

Water quality – overall compliance

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

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

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

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

Service Incentive Mechanism (SIM)

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

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

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

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

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

Serviceability

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.

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).

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 £205.8m (2012: £406.8m). The Company did not pay any dividends during the year to its shareholders (2012: £nil).

£158.1m of preference shares were redeemed by Kelda Holdings Limited during the year (2012: £124.8m), in accordance with the preference share agreements entered into when the company was purchased by the current owners in 2008.

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 24.

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 Holdings Limited is that of a holding company within the Kelda Holdings Group.

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. The working of the Board is covered in more detail in the Corporate Governance report on pages 35 to 41.

Richard Flint		Chief Executive
Liz Barber		Director of Finance & Regulation

Non-executive Directors

		Notes
Juan Angoitia	(appointed 30 May 2013)	
Scott Auty		
Stuart Baldwin		
Paul Barr		
Kenton Bradbury	(resigned 12 July 2012)	
Colin Campbell	(resigned 16 July 2012)	Alternate for J-G Duthie-Jackson
Vicky Chan	(appointed 31 May 2013 as alternate and alternate role cancelled 30 August 2012)	Alternate for Juan Angoitia
Mark Chladek	(appointed 7 December 2012)	Alternate for Milton Fernandes
James Cooper	(appointed 26 July 2012 and resigned 6 December 2012)	Previously alternate for Kenton Bradbury
Jean Daigneault	(appointed 1 February 2013)	Previously alternate for Mark Lorkin and subsequently appointed 1 February 2013 as alternate for Michael Osborne
Robert Davies	(appointed 26 July 2012)	Independent non-executive
J-G Duthie-Jackson	(resigned 21 May 2013)	
Milton Fernandes	(appointed 6 December 2012)	
Felicity Gates	(resigned 30 May 2013)	Alternate for Holly Keoppel
Holly Keoppel		
Mark Lorkin	(resigned 31 January 2013)	
Hamish Mackenzie	(appointed 1 June 2012)	Alternate for Jane Seto
Michael Osborne	(appointed 31 January 2013)	Previously appointed alternate for J-G Duthie-Jackson on 26 July 2012
Anthony Rabin	(appointed 26 July 2012)	Independent non-executive
Jane Seto		
Kevin Whiteman		Chairman

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £4.1m (2012: £8.2m) was committed to research and development including £3.4m (2012: £7.5m) on non-current assets.

Valuation of assets

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

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

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

Payment of suppliers

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

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the period 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 in developing open and trusted relationships. It values involvement and engagement at all levels, recognising that everyone in the business is valued for their contribution and is a potential source of innovation and change. The Group values set the framework for how the Group expects colleagues and partners to behave with each other, with customers and with external stakeholders.

The Group's communications strategy is based on a 'face to face first' approach and all messages are delivered through 'two-way' channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and the directors. 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 colleagues are aligned to Group goals; how colleagues are engaged to deliver great performance; and how capability is built.

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, the Group now has gender balance in the executive management 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 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. The Group is focused on developing safety, technical, behavioural and leadership capability. Leadership skills are recognised and developed using the Group's 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 that company. Yorkshire Water 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, safety and wellbeing standards throughout its business. The management of health, safety and wellbeing issues operates in the context of the health and safety policy adopted by the Board and the system of internal control.

The 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 wellbeing support and rehabilitation services for employees.

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

The 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 a route to continually achieve this through a strong occupational health and safety management system, active engagement and communication with employees and demonstrated leadership at all levels.

Consultation with all employees via area and functional health, safety and wellbeing forum groups and safety committees is actively encouraged and supported. Where possible, the intent is for local health and safety issues to be discussed and resolved with line management. 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 the Group are intended to place emphasis on the proactive identification and control of its 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 Yorkshire Water 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.

Supporting communities in Hull:

Yorkshire Water provided financial support to more than 30 community projects in Hull over the past year. The donations, which ranged in value from £500 to £5000, were to thank local people for their patience as the company tried to resolve long-running odour issues at its Saltend Waste Water Treatment Works.

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

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

Hands Up:

In November 2012, 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 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.

Coastalong:

2012 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 breathtaking 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 has been repeated in 2013.

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
- £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.

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

Financial instruments

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

Likely future developments

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

Annual general meeting

Kelda Holdings 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.

Auditors

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

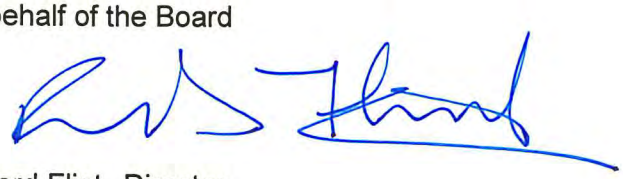
Statement of Directors' responsibilities

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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
7 October 2013

Company secretary: Crestbridge Ltd

Registered address:
47 Esplanade
St Helier
Jersey
JE1 0BD
Channel Islands

Corporate governance

Throughout the year the Board remained accountable to the Group's shareholders for maintaining standards of corporate governance as set out below. This corporate governance report describes how the Board and its committees discharge their duties.

The Board of directors

The Board held six scheduled meetings during the period. Additional meetings were held where it was considered appropriate or where business needs required. In addition, meetings of committees of the Board were held when required. The Board has a schedule of matters reserved for its decision.

The Board determines the Group's strategic objectives and key policies, and approves the business plans for the Group, interim and final financial statements, recommendations of dividends, significant investment and major new business proposals, as well as significant organisational matters and corporate governance arrangements. The Board is also responsible for establishing and reviewing the Group's system of internal control and risk management, and reviewing at least annually its effectiveness. The roles of the chairman and chief executive are formally set out and agreed by the Board. There are clear levels of delegated authority in Group companies, which enable management to take decisions in the normal course of business.

The Board has a schedule of matters reserved for its decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Group.

During the year the Board received detailed monthly reports prepared by management on the Group's operations. In addition to those monthly reports the following matters of significance were considered by the Board; non-regulated investment opportunities; the proposals by Ofwat to modify Yorkshire Water's Instrument of Appointment; the review of the Group's pension arrangements; the Group's vision and strategy; the Group's risk strategy; changes to the legislative, political and regulatory landscape; the impact of retail competition; RPI proposed changes and its impact; Group Treasury Strategy; Group Funding Strategy; and preparations for the next price review of Yorkshire Water.

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

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

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

Robert Davies and Anthony Rabin are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgements.

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

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

At the end of the period, the Board comprised a non-executive chairman, two executive directors, eight shareholder non-executive directors, two independent non-executive directors plus four alternate directors.

The Board has delegated certain authority to Board committees as and when appropriate.

Board and committee attendance

There are five standing committees of the Board which are as follows:

1. Executive Committee
2. Audit Committee
3. Remuneration Committee
4. Nominations Committee
5. Investment Committee

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

The table below shows the number of meetings of the Board, its standing committees, Executive, Audit, Remuneration, Nominations and Investment Committees attended by each director as a member of that Board or committee, out of possible attendances. The attendances of alternates have not been included where the directors for whom they act as alternate were present. During the year Jane Seto was currently on maternity leave and meetings where Hamish Mackenzie has acted as her alternate have not been included in her data.

	Board	Executive	Audit	Remuneration	Nominations	Investment
Juan Angoitia	-	-	-	-	-	-
Scott Auty	12/14	-	3/3	-	1/1	2/2
Stuart Baldwin	10/14	-	-	4/5	0/1	-
Liz Barber	13/14	20/22	-	-	-	2/2
Paul Barr	12/14	-	3/3	-		2/2
Kenton Bradbury	2/5	-	1/1	1/1	0/1	1/1
Colin Campbell	-	-	-	-	-	-
Vicky Chan	-	-	-	-	-	-
Mark Chladek	1/1	-	-	1/1	-	-
James Cooper	5/5	-	1/1	1/1	-	1/1
Jean Daigneault	-	-	-	-	-	-
Robert Davies	6/7	-	-	-	-	-
J-G Duthie-Jackson	7/14	-	-	-	-	1/2
Milton Fernandes	3/4	-	1/1	1/2	-	-
Richard Flint	14/14	22/22	-	-	-	-
Felicity Gates	-	-	-	-	-	-
Holly Keoppel	12/14	-	-	4/5	0/1	-
Mark Lorkin	12/12	-	2/2	-	-	-
Hamish Mackenzie	9/11	-	-	2/4	-	-
Michael Osborne	4/4	-	1/1	-	-	1/1
Anthony Rabin	5/8	-	2/2	-	-	-
Jane Seto	1/3	-	-	0/1	-	-
Kevin Whiteman	12/14	22/22	-	5/5	1/1	-

Executive committee

Chaired by the chief executive and comprising the executive directors and the chairman, it has delegated authority to deal with specific matters remitted to it by the Board.

Audit Committee

The Audit Committee at the end of the period was made up of five non-executive directors of Kelda Holdings Limited, namely Anthony Rabin, Paul Barr, Michael Osborne, Milton Fernandes and Scott Auty (as alternate for Jane Seto), plus Roger Hyde, an independent non-executive director of Yorkshire Water. During the period: James Cooper was appointed in place of Kenton Bradbury on 26 July 2012 and subsequently replaced by Milton Fernandes on 6 December 2012; Scott Auty was appointed as alternate for Jane Seto on 30 May 2012; and Michael Osborne replaced Mark Lorkin on 31 January 2013. The chairman of the Committee during the period was initially Kenton Bradbury, who was replaced as chairman by Anthony Rabin on 26 July 2012.

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

The Audit Committee's key tasks in respect of the Group during the year included:

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

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

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

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

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

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

The key features of the policy are:

- clear accountability of the external auditor to the Audit Committee and the chairman of the Board of Kelda Holdings Limited;
- the Audit Committee considers annually its recommendation to re-appoint the external auditor;
- the external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- the external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity;
- the external auditor is required to confirm in writing to the Audit Committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements;
- the external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the Group and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; and

- specific restrictions and procedures in relation to the allocation of non-audit work to the external auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of the work, or the approval of the Audit Committee. At each of its meetings the Audit Committee receives a report of the fees paid to the auditor in all capacities.

The split between audit and non-audit fees for the year to 31 March 2013 appears in note 4 to the statutory financial statements. The amount and nature of non-audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

In view of the fact that the majority of issues dealt with by the Audit Committee relate to the affairs of Yorkshire Water, during the financial year 2013/14 the Group proposes to establish a separate Yorkshire Water audit committee to consider matters as described above insofar as they apply specifically to the affairs of that company. This new committee will be chaired by Anthony Rabin.

Internal control

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

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

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

- The main risks facing the Group are identified and recorded in a strategic risk register together with the control mechanisms applicable to each risk. These are collated from risk registers maintained by individual business units and are updated and reviewed by the executive management team;
- There is clear allocation of management responsibility for risk identification, recording, analysis and control;
- The Audit Committee reviews the effectiveness of the systems which are in place and reports to the Board. Roger Hyde reports to Yorkshire Water's board meetings;
- Both the executive management team and a sub-committee of the same met during the year to review the Group's strategic risk position in detail;
- Business units are required to report annually on principal business risks and the operation of control mechanisms; and
- The internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process.

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

The Audit Committee reviews and monitors the effectiveness of the risk management process on behalf of the Group.

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

The Board confirms that it has reviewed the system of internal control. It has received the reports of the Audit Committee and has conducted a formal review covering all controls including financial, operational, compliance and risk management.

Remuneration Committee

Details of the membership and role of the Remuneration Committee are included in the remuneration report on pages 42 to 54.

Nominations Committee

The Nominations Committee met once during the period to consider recommendations in respect of the appointment to the Board of Robert Davies and Anthony Rabin as independent non-executive director and confirmed recommendations to the Board to that effect.

Investment Committee

The Investment Committee met twice during the period to consider non-regulated investment opportunities in Kelda Water Services and reinvestment in energy efficient schemes in Yorkshire Water.

Corporate Responsibility Committee

The Group has established a Corporate Responsibility Committee. Martin Havenhand and Kathryn Pinnock, who are independent non-executive directors of Yorkshire Water, sit on the Corporate Responsibility Committee along with Kevin Whiteman and Richard Flint who chairs the Committee. The director of corporate communication and the Group company secretary attend all meetings. Other directors and Group employees attend by invitation. During 2012/13 the Committee met on four occasions and is scheduled to meet on a quarterly basis.

The Corporate Responsibility Committee's key tasks include:

- delivery of the Group's corporate social responsibility reports;
- the creation of a culture of environmental and corporate responsibility awareness within the Group;
- liaising with and directing activity of other relevant Group committees;
- advising on opportunities for partnerships to further the Group's corporate responsibility objective;
- benchmarking performance of the Group against leading comparators; and
- monitoring the work of and receiving reports from the Environmental Advisory Panel.

Board evaluation

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

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

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

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

Conflicts of interest

Procedures have been put in place for the disclosure of any potential conflicts by the directors to the Board and if appropriate for the authorisation of such conflicts. The procedures permit any authorisation to be subject to any conditions that the directors who are not conflicted consider to be appropriate. All of the directors are required to notify the group company secretary if they believe a conflict situation might arise. The directors do not consider that during the financial year that any actual conflicts of interest have arisen between the roles of the directors as directors of the Company and any other roles which they may hold.

Kelda Holdings Limited
Directors' Remuneration Report
for the year ended 31 March 2013

Introduction

The Remuneration Committee at the end of the period was made up of five non-executive directors namely Holly Koeppel (committee chair), Stuart Baldwin, Milton Fernandes, Hamish Mackenzie (as alternate for Jane Seto) and Kevin Whiteman. During the period: Hamish Mackenzie was appointed as alternate for Jane Seto on 30 May 2012; James Cooper was appointed in place of Kenton Bradbury on 26 July 2012 and subsequently replaced by Milton Fernandes on 6 December 2012.

In the interests of improved governance and transparency at the Yorkshire Water level, following agreement of the boards of the Company and Yorkshire Water, Martin Havenhand, who is an independent non-executive director of Yorkshire Water, has also been appointed to the Remuneration Committee with effect from 1 April 2013.

The Committee chair reports on the activities of the Committee to the Board meeting immediately following each Committee meeting.

Richard Flint, chief executive, and Pamela Rogerson, Yorkshire Water director of HR and human resources, and the Group company secretary attend all meetings. Liz Barber, director of finance and regulation attends by invitation. Pamela Rogerson acts as adviser to the Committee and external advisers attend on an ad hoc basis to advise the Committee as necessary.

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

The Committee makes recommendations to the Board in respect of the Group on the framework of executive remuneration, and its cost. It determines the remuneration and conditions of employment of the chairman, executive directors and the next most senior category of executives, including the terms of any compensation in the event of early termination of an executive director's contract. It also operates the Group's long term incentive plan. In determining the remuneration of executive directors and other senior executives, the Committee also takes into account the level of remuneration and pay awards made generally to employees of the Group. The design of performance–related remuneration for executive directors and other senior management of the Group takes into account the provisions of Schedule A of the UK Corporate Governance Code as published by the Financial Reporting Council.

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

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

Statement of policy

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

In recommending remuneration packages, the Remuneration Committee follows the principle of recognition of the individual's contribution to the business. The Group intends that remuneration packages continue to be developed to enable executive directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, compared to relevant market and industry comparators and taking into account individual performance, responsibilities and experience. Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards. Further details of the proportions are included in the sections below and in the directors' emoluments table on page 53. The design of the total remuneration package is intended to achieve a weighting of each component to ensure that above average remuneration is available through performance related elements rather than base salary.

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

Executive directors

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

Annual salary and benefits

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

Annual incentive plan

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

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

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

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

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal / individual objectives set at the start of the financial year.

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the Group's strategic business objectives. The same corporate objectives were shared by all members of the executive management team. These are set out in the table below with the percentage payable.

Strategic Theme	Measure	% of corporate bonus awarded (out of maximum available)
Strong financial foundations	1. EBITDA (see page 78 for definition) 2. Capital Programme Allowance 3. Capital efficiency	18 (20% max)
Trusted company	1. SIM qualitative 2. SIM quantitative 3. Media Score	5 (6% max)
Water efficient regions	1. Reservoir Stocks 2. Leakage rolling average 3. Demand	6 (6% max)
Safe water	1. Mean zonal compliance 2. DWI incidents 3. RIDDOR incidence rate 4. Near Miss incidence rate 5. DG5 other causes	2 (6% max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents 2. Category 3 pollution incidents 3. No of WWTW's failing numeric consent	6 (6% max)
Sustainable resources	1. Renewable energy generation 2. Greenhouse gas emissions	3 (6% max)

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

	Max. Bonus %	***Bonus for 2012/13 %***	***Bonus for 2012/13 £***
Liz Barber	100	80	211,206
Richard Flint	100	85	314,500

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

The bonuses of Richard Flint and Liz Barber are shown in full however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged out of other Group companies.

Long term incentive plan (LTIP)

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

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

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

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

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

No benefits under the plan are pensionable.

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

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

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

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

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

The Ofwat Report is used to contain Ofwat's assessment of each water company's operating and capital maintenance efficiency for water and, in respect of the water and sewerage

companies, the same efficiency measures in respect of sewerage. These assessments are based primarily on Ofwat's econometric models and unit cost comparisons.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee conducted a further review of the Group's LTIP arrangements and a revised set of performance conditions were developed during 2011/12. The Committee determined that customer service should provide a "gateway" to any award as measured by Ofwat's customer service mechanism if Yorkshire Water is ranked in the top half of the SIM league table for water and sewerage companies. Once through that "gateway" delivery of cashflow targets would provide a cash value to vest. Finally long term management of Yorkshire Water's assets through assessment against Ofwat's serviceability measures will secure the payment for vesting. A bonus for top customer service performance will be added. If Yorkshire Water is ranked 1st or 2nd in the SIM league table for water and sewerage companies, the sum to vest will be 110% of the value arrived at when assessing the payment for vesting.

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

Step 1 - Ofwat Performance Condition

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

If the Ofwat Ranking of Yorkshire Water is in the bottom half of the Ofwat Comparator Group for the SIM measure (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee) then the Ofwat Performance Condition shall not be met and the award shall not vest.

Step 2 - Cashflow Performance Condition

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

Cashflow Measure	**Percentage Determined**
Targeted Cashflow is at least 120%	100%
Targeted Cashflow is at least 100% but below 120%	Pro rata between 70% and 100%
Targeted Cashflow is at least 90% but below 100%	Pro rata between 1% and 100%
Targeted Cashflow is less than 90%	0%

Step 3 - Serviceability Performance Condition

The Serviceability Performance Condition is that, subject to the SIM Bonus set out in step 4 below, 25% of the percentage determined under Step 2 shall vest in respect of the awards for each Ofwat serviceability measure as assessed in the Ofwat Report (or where replaced by

such regulatory self-reporting procedures as assessed by those regulatory self-reporting procedures for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award and 2015/16 for the 2013 award) as "stable" or "improving".

Step 4 – SIM Bonus

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

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

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

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

At a meeting on 28 March 2013, confirmed by subsequent written resolution, the Committee determined an overall level of vesting of the 2010 awards at 60%. This resulted in payments to the directors in accordance with the table below and were paid in June 2013 (Note: Liz Barber was not a participant in the 2010 LTIP scheme);

	Vesting %	***Vesting £***
Richard Flint	60	396,000
Kevin Whiteman*	60	810,000

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

The LTIP payments for Kevin Whiteman and Richard Flint are shown in full however they carry out other Group responsibilities and a portion of their LTIPs are recharged to other Group companies accordingly.

Non-executive directors

The chairman of the Board is paid an annual fee of £250,000 in respect of his role as chairman of the Company and other Group responsibilities.

Robert Davies and Anthony Rabin as independent non-executive directors of the Company are paid a fee of £45,000 per annum. Anthony Rabin receives an additional fee of £6,000 per annum as chairman of the Audit Committee.

The other non-executive directors of the Company as shareholder representatives are not paid a fee, however, the employing shareholders are entitled to raise a fee of £20,000 per annum for each director so acting.

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

Service contracts

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

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

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

Richard Flint	11 November 2009
Liz Barber	30 April 2010

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

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

Robert Davies	1 October 2012
Anthony Rabin	1 September 2012

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

Directors' emoluments

	Salary/ fees £000	Annual bonus £000	Long term incentive plan £000	Benefits in kind £000	Termination payment £000	**Total 2013 £000**	Total 2012 £000
Executive directors							
Richard Flint	370	315	396	10	-	**1,091**	738
Liz Barber	262	211	-	3	-	**476**	440
Non-executive directors							
Kevin Whiteman	250	-	810	17	-	**1,077**	954
Robert Davies	26	-	-	-	-	**26**	-
Anthony Rabin	26	-	-	-	-	**26**	-
Total	934	526	1,206	30	-	**2,696**	2,132

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

Pensions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Accrued pension at 31 March 2013	Accrued pension at 31 March 2012	Increase in accrued pension	Increase in accrued pension (3) allowing for inflation	Transfer value of increase in accrued pension (4) less member contributions (9)	Transfer value at 31 March 2013	Transfer value at 31 March 2012	Change in transfer value over the period less member contributions (6) – (7) – (9)	Director's contributions over the period
	£	£	£	£	£	£	£	£	£
Richard Flint	88,298	73,472	14,826	12,548	177,601	1,405,919	1,046,131	337,588	22,200

Notes:

1. The age at which members can retire with an unreduced pension is 60 years.
2. The spouse's pension on death after retirement is 50% of the member's pension before any cash commutation.
3. The spouse's pension on death before retirement after leaving service is 50% of the member's accrued pension.
4. Pension increases in payment for the WPS pension scheme members are guaranteed to be in line with the level of the increase in RPI provided the plan's actuary confirms that the plan's resources are sufficient to meet the cost. If it is not possible to provide this confirmation in any year, an increase of 6% (or the increase in the RPI if less) will always be provided. A test will also be applied at retirement to ensure that the minimum increases required by legislation have been awarded.
5. Pension increases in payment for Family Plus members are in line with the increase in RPI up to a maximum of 5%.
6. Transfer values have been calculated in accordance with the Occupational Pension Schemes (Transfer Value) Regulations 1996. The assumptions used are consistent with those used for transfer values payable from the Kelda Group Pension Plan.
7. Any Additional Voluntary Contributions paid by the directors and the resulting benefits are not shown.

Liz Barber is a member of the Kelda Stakeholder+ Arrangement, a defined contribution scheme established in 2007.

The full contributions made on her behalf by the Group and her own contribution during the year are as follows:

	Group contribution	Member's contribution
Liz Barber	£79,202	£15,840

Independent auditors' report to the members of Kelda Holdings Limited

We have audited the group and parent company financial statements of Kelda Holdings Limited for the year ended 31 March 2013 which comprise the group income statement, the group statement of comprehensive income, the group and company balance sheets, 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 as adopted by the European Union (group financial statements) and United Kingdom Accounting Standards (parent company financial statements).

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, 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 and 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 apparent material misstatements we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2013 and of the group's loss and cash flows and of the parent company's profit for the year then ended;

- have been properly prepared in accordance International Financial Reporting Standards as adopted by the European Union (group financial statements) and United Kingdom Accounting Standards (parent company financial statements; and

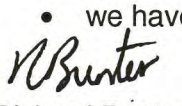
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



Richard Bunter
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
7 October 2013

Kelda Holdings Limited
Group income statement
for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Group revenue	3	**1,022.8**	974.5
Operating costs before exceptional items	4	**(693.0)**	(628.6)
Exceptional items	5	**22.5**	(10.3)
Total operating costs		**(670.5)**	(638.9)
Group operating profit before share of associates and joint ventures		**352.3**	335.6
Share of associates' and joint ventures' loss after tax	13	**(0.2)**	(0.3)
Group operating profit from continuing operations	3	**352.1**	335.3
Finance income	7	**68.4**	72.6
Finance costs	7	**(421.0)**	(462.5)
Exceptional finance costs	5	**(306.4)**	(522.3)
Total finance costs		**(727.4)**	(984.8)
Loss from continuing operations before taxation		**(306.9)**	(576.9)
Tax credit	8	**101.1**	170.1
Loss for the year attributable to owners of the parent		**(205.8)**	(406.8)

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		**(205.8)**	(406.8)
Other comprehensive 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		**(263.8)**	335.2

See page 88 for details of the prior year restatement.

Kelda Holdings 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**	193.6
Financial assets	22	**19.0**	-
Cash and cash equivalents	16	**27.2**	28.2
Short term deposits	16	**60.3**	38.8
		293.7	262.4
Total assets		**8,834.6**	8,658.0
Current liabilities			
Trade and other payables	17	**(499.8)**	(481.3)
Tax liabilities		**(15.4)**	(4.2)
Short-term borrowings	16	**(280.4)**	(575.5)
		(795.6)	(1,061.0)
Non-current liabilities			
Long-term borrowings	16	**(5,362.8)**	(4,706.4)
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)
		(7,903.4)	(7,038.1)
Total liabilities		**(8,699.0)**	(8,099.1)
Net assets		**135.6**	558.9
Equity attributable to owners of the parent			
Equity shares	21	**750.9**	909.0
Hedging reserve		**(41.3)**	(38.0)
Revaluation reserve		**844.8**	852.1
Share-based payment reserve		**5.2**	5.2
Accumulated losses		**(1,424.0)**	(1,169.4)
Total equity		**135.6**	558.9

The financial statements on pages 57 to 117 were approved by the board of directors on 7 October 2013 and signed on their behalf by:

Liz Barber
Director

Registered Number: 99329

Kelda Holdings Limited
Group statement of changes in equity
as at 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	1,033.8	(27.3)	38.3	5.2	(702.7)	347.3
Shares redeemed in the year	(124.8)	-	-	-	-	(124.8)
Loss for the year	-	-	-	-	(406.8)	(406.8)
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	909.0	(38.0)	852.1	5.2	(1,169.4)	558.9
Shares redeemed in the year	(158.1)	-	-	-	-	(158.1)
Loss for the year	-			-	(205.8)	(205.8)
Credit to income statement for surplus depreciation	-	-	(23.8)	-	23.8	-
Other movements	-	-	-	-	(1.4)	(1.4)
Total included in the Group statement of comprehensive income	-	(3.3)	16.5	-	(71.2)	(58.0)
At 31 March 2013	**750.9**	**(41.3)**	**844.8**	**5.2**	**(1,424.0)**	**135.6**

See page 88 for details of the restatement to prior year.

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

	Note	2013 £m	2012 £m
Cash flows from operating activities	24	**568.6**	524.7
Income taxes received/(paid)		**15.1**	(0.1)
Interest paid		**(247.0)**	(247.6)
Net cash generated from operating activities		**336.7**	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
Redemption of preference shares		**(158.1)**	(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		**46.2**	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

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 7 October 2013 and the balance sheet was signed on the board's behalf by Liz Barber, Director of Finance and Regulation. Kelda Holdings Limited is a limited company incorporated and domiciled in Jersey.

2. Accounting policies

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

Basis of accounting

The consolidated financial statements of Kelda Holdings 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 (Jersey) Law 1991 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 70 and 71.

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

Foreign currencies

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

On consolidation, the income statements of 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.

Taxation

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

When the hedged highly 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 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 and preference 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.

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.

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on page 64 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.

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.

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.

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	13.8	1,098.6	(4.7)	1,093.9
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**	**13.8**	**1,027.5**	**(4.7)**	**1,022.8**
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)	(54.7)	(454.4)	4.7	(449.7)
	350.5	**11.9**	**1.7**	**1.1**	**(35.4)**	**329.8**	**-**	**329.8**
Exceptional items in operating costs						22.5	-	22.5
						352.3	**-**	**352.3**
Less associates' and joint ventures' interest						(0.2)	-	(0.2)
Group operating profit from continuing operations						**352.1**	**-**	**352.1**
Finance income								68.4
Finance costs								(421.0)
Exceptional items in finance costs								(306.4)
Loss from continuing operations before taxation								**(306.9)**
Tax credit								101.1
Loss for the year attributable to owners of the parent								**(205.8)**

Year ended 31 March 2013

	UK regulated water services	KWS - group	Loop	KeyLand - group	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m	£m
Assets	12,230.2	332.6	7.3	45.9	(3,870.1)	8,745.9
Investments in associates and joint ventures accounted for by the equity method	-	-	-	1.2	-	1.2
Liabilities	(5,397.6)	(159.8)	(4.8)	(17.0)	2,523.4	(3,055.8)
Net debt	(4,393.1)	(147.1)	(0.2)	-	(1,015.3)	(5,555.7)
Net assets	**2,439.5**	**25.7**	**2.3**	**30.1**	**(2,362.0)**	**135.6**
Other information						
Capital additions	**373.3**	**3.6**	**0.1**	-	**27.1**	**404.1**

Net debt of £5,555.7m 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 £5,643.2m which are included on the balance sheet in total liabilities. Net debt is defined in note 22, and does not include financial liabilities.

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

The Group's geographical segments are based on the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. 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	1,013.6	9.2	1,022.8
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

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)	(58.4)	(421.3)	3.0	(418.3)
	347.3	**12.0**	**1.3**	**(0.6)**	**(14.1)**	**345.9**	**-**	**345.9**
Exceptional items in operating costs						(10.3)	-	(10.3)
						335.6	**-**	**335.6**
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						**335.3**	**-**	**335.3**
Finance income								72.6
Finance costs								(462.5)
Exceptional items in finance costs								(522.3)
Loss from continuing operations before taxation								**(576.9)**
Tax credit								170.1
Loss for the year attributable to owners of the parent								**(406.8)**

Year ended 31 March 2012

	UK regulated water services	KWS - group	Loop	KeyLand - group	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m	£m
Assets	11,901.7	354.0	6.6	43.0	(3,715.7)	8,589.6
Investments in associates and joint ventures accounted for by the equity method	-	-	-	1.4	-	1.4
Liabilities	(5,621.3)	(172.6)	(4.8)	(15.6)	2,997.1	(2,817.2)
Net debt	(4,128.8)	(153.0)	(0.2)	-	(932.9)	(5,214.9)
Net assets	**2,151.6**	**28.4**	**1.6**	**28.8**	**(1,651.5)**	**558.9**
Other information						
Capital additions	**404.3**	**4.9**	**0.1**	**-**	**65.7**	**475.0**

Net debt of £5,214.9m 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 £5,281.9m 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 includes 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	965.1	9.4	974.5
Carrying value of assets (excluding cash and short term deposits)	8,553.4	10.5	8,563.9
Capital additions to property, plant and equipment (net of grants and contributions)	475.0	-	475.0

4. Operating costs before exceptional items

	2013 £m	2012 £m
Own work capitalised	**(39.4)**	(36.0)
Raw materials and consumables	**31.5**	28.9
Other external charges	**309.8**	284.5
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)
	693.0	628.6

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 £m	2012 £m
Group operating profit before share of associates and joint ventures	**352.3**	335.6
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	**575.0**	557.9

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 in 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.

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 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.

6. Directors and employees

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

	2013 £m	2012 £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 £m	2012 £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 £m	2012 £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.

No executive directors resigned during the financial year. Two non-executive and two alternate non-executive 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 cost on pension scheme liabilities (note 20)	**50.3**	49.9
Commitment fees and miscellaneous interest	**2.5**	8.6
Total finance costs before capitalisation of interest	**444.4**	474.6
Interest capitalised	**(23.4)**	(12.1)
Total finance costs net of interest capitalised	**421.0**	462.5

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

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	**(306.9)**	(576.9)
Less: share of associates' and joint ventures' taxation	-	0.1
	(306.9)	(576.8)
Less: share of associates' and joint ventures' loss before tax	**0.2**	0.2
	(306.7)	(576.6)
Current and deferred tax on Group loss on ordinary activities at the standard UK tax rate	**(73.6)**	(149.9)
Effects of:		
Income not chargeable for tax purposes	**(2.6)**	-
Expenses not deductible for tax purposes	**17.6**	36.6
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 enacted on 26 March 2012 and 3 July 2012 respectively and, therefore, are included in these financial statements.

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

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

The effect of the changes expected to be enacted in 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).

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, brought 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 70.

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.

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

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

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

12. Property, plant and equipment

	Land and Buildings	Infrastructure assets (restated)	Plant and equipment	Under construction	Group total
	£m	£m	£m	£m	£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 99. 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%).

	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 plan and equipment, an entity to estimate fair value using an income approach. Having considered the requirement of IAS 16, Management concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company is a two-step approach:

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

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

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

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 £m	Historical cost basis £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 undertakings and joint ventures	Loans to associated undertakings and joint ventures	Total investments in associated undertakings and joint ventures
	£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.

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

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

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
Other tax and social security	**14.5**	17.3
Other receivables	**14.6**	15.3
	185.7	193.6

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

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

	2013 £m	2012 £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 £m	2012 £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.

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

Short-term borrowings:	2013 £m	2012 £m
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

Long term borrowings:	2013 £m	2012 £m
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
	5,362.8	4,706.4

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%.

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.

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).

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 5 years).

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

(iii) Finance leases

Amounts payable under finance leases:	**Minimum lease payments 2013 £m**	Minimum lease payments 2012 £m
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.

17. Trade and other payables

Amounts falling due within one year:	2013 £m	2012 £m
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
Interest payable	**98.4**	97.6
Deferred income	**148.9**	132.1
Other payables	**34.4**	35.6
	499.8	481.3

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 on-going costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value.

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 liabilities

	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.

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.

(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 Market value £m	2013 Expected long term rate of return %
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 Market value £m	2012 Expected long term rate of return %
Fair value of scheme assets		
Equities	539.2	6.25
Bonds	279.6	4.25
Property	78.7	6.25
Other	6.5	3.50
Total value of assets	904.0	
Present value of scheme liabilities	(1,003.7)	
Pension liability	(99.7)	

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 finance 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.

(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).

21. Equity shares

	Equity shares		Preference shares		Share premium	Total
	Number	1p shares £	Number	£1 shares £	£	£
Allotted, called up and fully paid						
As at 31 March 2011	190,000	1,900	963,161,568	963,161,568	70,602,342	1,033,765,810
Redeemed during year	-	-	(124,750,000)	(124,750,000)	-	(124,750,000)
As at 31 March 2012	190,000	1,900	838,411,568	838,411,568	70,602,342	909,015,810
Redeemed during year	-	-	(158,100,000)	(158,100,000)	-	(158,100,000)
As at 31 March 2013	**190,000**	**1,900**	**680,311,568**	**680,311,568**	**70,602,342**	**750,915,810**

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

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 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 rate 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)**	**(5,362.8)**	**(5,643.2)**	(575.5)	(4,706.4)	(5,281.9)
	(192.9)	**(5,362.8)**	**(5,555.7)**	(508.5)	(4,706.4)	(5,214.9)

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.

(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
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
	230.7	195.0	192.1	202.7	1,149.1	2,904.4	4,874.0
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)

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
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
	409.8	170.4	178.0	187.4	202.4	3,566.3	4,714.3
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 shareholders and to maintain an optimal capital structure. In order to do this, the Group will consider the amount of debt and assets held and their liquidity.

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

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

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

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

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

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

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

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

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

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

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Cash and short term deposits (see note 16)	**87.5**	67.0	**-**	-
Trade and other receivables (see note 15)	**185.7**	193.6	**0.1**	0.7
Financial assets	**19.0**	-	**-**	-
Investments	**10.3**	6.1	**767.2**	929.0

Liquidity risk

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

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

At 31 March 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 106 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 RCV.

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

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

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

Impact on profit before tax	**2013 £m**	2012 £m
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)

(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 Book value £m	**2013 Fair value £m**	2012 Book value £m	2012 Fair value £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
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.

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: charge 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

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.

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	**6,926**	**7.41**	117,423	6.99
Lapsed during the year	**-**	**-**	(1,528)	6.86
Exercised during the year	**(6,926)**	**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.

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	(4,419.8)	(170.8)	172.4	(4,418.2)	**(157.0)**	**(524.7)**	**(5,099.9)**
Finance leases due after one year	(347.8)	-	59.6	(288.2)	**-**	**25.3**	**(262.9)**
	(4,767.6)	(170.8)	232.0	(4,706.4)	**(157.0)**	**(499.4)**	**(5,362.8)**
Net debt relating to continuing activities	(4,807.8)	(170.8)	(236.3)	(5,214.9)	**(157.0)**	**(183.8)**	**(5,555.7)**
Total net debt	(4,807.8)	(170.8)	(236.3)	(5,214.9)	**(157.0)**	**(183.8)**	**(5,555.7)**

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

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

	2013 £m	2012 £m
Loss from continuing operations before taxation	**(306.9)**	(576.9)
Share of associates' and joint ventures' loss after tax	**0.2**	0.3
Finance income	**(68.4)**	(72.6)
Finance costs	**421.0**	462.5
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	**7.9**	7.7
Increase/(decrease) in trade and other payables	**3.7**	(16.9)
Pension contributions in excess of operating costs	**(33.7)**	(12.8)
Movements in provisions	**(1.7)**	1.1
Other movements	**(3.5)**	(0.1)
Cash generated by continuing operations	**568.6**	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

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%.

28. Ultimate controlling party

In the opinion of the directors there is no ultimate controlling party of Kelda Holdings Limited.

Kelda Holdings 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 Holdings Limited
Company balance sheet

as at 31 March 2013

Registered Number: 99329

	Notes	2013 £m	2012 £m
Fixed assets			
Investments	3	**767.2**	929.0
Current assets			
Debtors	4	**0.1**	0.7
Creditors: amounts falling due within one year	5	**(0.3)**	(5.5)
Net current liabilities		**(0.2)**	(4.8)
Total assets less current liabilities		**767.0**	924.2
Net assets		**767.0**	924.2
Capital and reserves			
Called up share capital	6	**750.9**	909.0
Profit and loss account	6	**16.1**	15.2
Total shareholders' funds		**767.0**	924.2

The financial statements on pages 118 to 121 were approved by the board of directors on 7 October 2013 and signed on their behalf by:



Liz Barber
Director

1. Company accounting policies

Basis of accounting
The Company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with all applicable United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the financial statements, with the Companies (Jersey) Law 1991.

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

Deferred tax
Deferred 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.

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

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

2. Profit attributable to the parent company

The profit of the parent company was £0.9m (2012: £4.6m). Advantage has been taken of the exemption available under Companies (Jersey) Law 1991 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 7 October 2013.

3. Investments

	Shares in group undertakings £m	Loans to group undertakings £m	Total investments in group undertakings £m
Cost			
At 31 March 2011	750.0	296.2	1,046.2
Loans repaid during year	-	(117.2)	(117.2)
At 31 March 2012	750.0	179.0	929.0
Loans repaid during year	-	(161.8)	(161.8)
At 31 March 2013	**750.0**	**17.2**	**767.2**

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

4. Debtors

	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	**0.1**	0.7
	0.1	0.7

5. Creditors: amounts falling due within one year

	2013 £m	2012 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**-**	5.2
Other creditors	**0.3**	0.3
	0.3	5.5

6. Reconciliation of movement in shareholders' funds

	Called up share capital £m	Profit and loss account £m	Total Shareholders' funds £m
Shareholders' funds at 31 March 2011	1,033.8	10.6	1,044.4
Redemption of preference shares	(124.8)	-	(124.8)
Profit attributable to shareholders	-	4.6	4.6
Shareholders' funds at 31 March 2012	**909.0**	**15.2**	**924.2**
Redemption of preference shares	**(158.1)**	**-**	**(158.1)**
Profit attributable to shareholders	**-**	**0.9**	**0.9**
Shareholders' funds at 31 March 2013	**750.9**	**16.1**	**767.0**

7. Other information

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

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

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

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

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

8. Ultimate controlling party

In the opinion of the directors there is no ultimate controlling party of Kelda Holdings Limited.