

Registered Number: 06433768

**KELDA EUROBOND CO LIMITED (formerly Skeldergate Eurobond Co Limited)**

**REPORT AND ACCOUNTS FOR THE 71 WEEK PERIOD TO 31 MARCH 2009**



**REPORT AND FINANCIAL STATEMENTS  
FOR THE 71 WEEK PERIOD ENDED 31 MARCH 2009**

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# ***Business Review***

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## **OUR BUSINESS**

Kelda Eurobond Co Limited (Kelda) purchased the entire share capital of Kelda Group plc in February 2008. Kelda Eurobond Co Limited 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 4.8m people and 130,000 businesses.

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

Business strategy:

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

### ***UK Service Operations***

#### ***Kelda Water Services***

Kelda Water Services Limited (KWS) is a major participant in the UK water and waste water contract operations market, with operations in England, Scotland, Wales and Northern Ireland.

Business strategy:

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

#### ***Loop***

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

#### ***KeyLand***

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

Business strategy:

- To maximise the value of the group's surplus property portfolio.

# ***Business Review (continued)***

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## **BUSINESS STRATEGY**

### **Value**

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

### **Our customers**

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

### **Our people**

The group employs 3,350 people. Our aim is to create a great place to work, with zero accidents, a good work-life balance and the opportunity to make a real difference. We want to attract and retain the best people, with performance and contribution recognised and rewarded and success celebrated as part of our culture.

### **Environmental leadership**

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

### **Society**

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

### **Service partners**

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

## **Business Review (continued)**

### **OPERATIONAL PERFORMANCE**

Operational performance for the companies is commented on for the year ended 31 March 2009, as in all cases the year to 31 March 2008 was covered in the 2008 accounts for Kelda Group Limited.

#### **Yorkshire Water**

We continue with our drive to deliver industry-leading standards of operational and customer service to the people of Yorkshire. However, the global economic climate has posed some challenges for Yorkshire Water during 2008/09. Due to the energy, hard work and enthusiasm of colleagues across the business, we have continued to make progress towards achieving our vision to be 'clearly the best water company in the UK'.

As we enter the final year of the current Asset Management Plan (AMP) period, our planning and preparation for the next five years is already well advanced.

Our Final Business Plan for the period 2010 to 2015, which we submitted to Ofwat in April 2009, has the support of our customers and stakeholders, with the Consumer Council for Water describing it as "balanced".

A joint stakeholder survey titled, 'PR09 Quantitative Research into Customers' priorities' was completed in October 2008 and published in February 2009. This survey was conducted on behalf of; Ofwat, Defra, Welsh Assembly, CCWater, EA, DWI, Natural England and Water UK and showed that 97% of domestic customers interviewed in Yorkshire supported our Draft Business Plan as being 'acceptable' or 'very acceptable'. Our Final Business Plan closely resembles our Draft submission and will see £1.9bn invested in the Yorkshire region over the next five years, with our customers still paying some of the lowest charges in the UK for their water and sewerage services (subject to receipt of the final determination from Ofwat).

#### **Key performance indicators (for the year ended 31 March 2009)**

	Target	Current year	Previous year
Overall customer satisfaction	95%	88%	86%
Overall drinking water quality	99.975%	99.975%	99.967%
Waste water treatment works compliance	100%	100.00%	99.51%
Accidents -			
- major and over 3 day accidents	15	26	28
- all accidents	75	152	150

Explanation of measures provided in Appendix to Business Review on page 12 and 13

#### **Value**

The company's financial performance is described in detail on page 8.

Our aim is to be clearly Ofwat's frontier company for financial performance and to outperform our targets. The past 12 months' energy and chemical prices have presented some challenges which have impacted on our financial performance.

Nevertheless, Yorkshire Water was Ofwat's benchmark company for operating cost efficiency in the comparative efficiency rankings for 2007/08 and was again the most efficient Water and Sewerage Company. Despite the recent increases in energy and

## ***Business Review (continued)***

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chemical costs, we still plan to outperform Ofwat's Final Determination on operating costs over the five-year period.

During 2008/09 we have delivered a capital programme of £362m and we are on track to deliver 7.5% out-performance over the five-year period.

We experienced a reduction in planned income during 2008/09 due to reduced demand from our business and domestic customers following the deterioration in the economic climate. We also saw a slight increase in debt from unmeasured domestic customers unable to pay.

### **Customer service**

Our aspiration is to provide a quality of service which is significantly better than any other UK utility company and a customer experience that is second to none.

Our contact centre provider Loop achieved its highest ever score of 4.68 (out of 5) in Ofwat's measure of customer service.

The Consumer Council for Water issued a report in September 2008 which showed that Yorkshire Water continued to have the lowest number of complaints in 2007/08, with just 23 complaints per 10,000 customers.

### **Environmental performance and compliance**

We had our best year ever for water quality compliance, with the total number of failures falling from 118 in 2007/08 to 57 for 2008/09. Following a major programme of sample inspections and chlorination, we also ensured that there were no E-coli failures at our service reservoirs.

We had a good year in terms of leakage reduction, with the amount of water lost from our own and our customers' pipes outturning at 295MI/d and we out-performed our regulatory target of 297.1MI/d.

We achieved 100% compliance with discharges from our waste water treatment works and a further reduction in the overall number of pollution incidents associated with our assets. This was as a result of our continued investment in improvements to our assets and operating procedures. However, an increase in the number of the more serious, Category 1 and 2 pollution incidents, demonstrates the need for us to continue to focus on this area. Our target is always to achieve zero pollution incidents.

During 2008/09, we also achieved one of our major performance milestones for the AMP4 period, with Ofwat's serviceability assessment for waste water treatment works being upgraded from "deteriorating" to "stable" for the first time since 2002. This followed the implementation of a comprehensive action plan to improve compliance and the introduction of new, more robust processes for managing and maintaining our assets.

### **Social impact**

During 2008/09, we achieved our aspiration to become a national role model for volunteering.

Our 'One Million Green Fingers' initiative made a successful start with 100 healthy and sustainable school gardens created in local schools. More than 1,000 Yorkshire Water employees took part in the company's flagship volunteering programme which will

## ***Business Review (continued)***

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eventually see new outdoor learning areas created at more than 350 primary schools in Yorkshire. The initiative has now been shortlisted as a National Example of Excellence by Business in the Community.

Yorkshire Water is now the region's leading exponent of employee volunteering, with one in three employees regularly taking part in some form of community activity. As a result of our recent success, we have now been invited to be part of a national Government Task Force to promote employee-supported volunteering across the UK.

### **Employees**

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

In particular, great emphasis was placed on managing the resource implications arising from the forthcoming completion of the AMP4 capital programme and the need to prepare for AMP5, particularly as we propose to make changes to the way we manage our service and capital contracts.

We continued our focus on leadership development, with a further 100 colleagues taking part in our Leading People+ programme.

Employees' welfare continues to be a top priority for the business, with 26 incidents reported to the Health and Safety Executive in 2008/09, compared to 28 the previous year.

### **Partners**

Our aspiration is to forge strong relationships with our partners to ensure better service, lower costs and healthy profits for all.

By March 2009, the Section 19 mains rehabilitation programme in Yorkshire was substantially complete, leaving only exception reports to be completed in 2009/10. Over the past four years of AMP4 our partners have helped us to improve more than 1,847km of mains leading to significant improvements in the quality and reliability of water services in the region.

During 2008/09, we also commissioned the University of Leeds to conduct research into our work with partners and the broader economic impact of our ongoing investment in water and sewerage services in the Yorkshire region. The study concluded that Yorkshire Water's investment in the region makes a major contribution to the local economy. Every year we spend approximately £650m with our suppliers, partners and staff, which in turn generates more than £1bn of additional economic activity.

More than 1,000 Yorkshire-based suppliers and some 2,200 employees benefit directly from our investment, which creates some £67m of disposable income in the region each year.

### ***UK Service Operations***

UK Service Operations comprises Kelda Water Services (KWS), Loop and Safe-Move. Operating profit for the UK Service Operations group and its associated undertakings for the 71 week period to 31 March 2009 was £9.5m, reflecting the continuing strong operating performances of existing businesses.

## ***Business Review (continued)***

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### *Kelda Water Services*

KWS is a leading UK water and waste water contract operations company. KWS continues to grow in its core markets, providing water and waste water operations and maintenance under long term contracts. In the 71 week period, KWS had turnover of £180.1m and operating profits of £8.7m.

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

- In Northern Ireland, Dalriada Water Services, a 50% owned joint venture between KWS and Earth Tech, completed the construction of four water treatment plants and began operation of these plants during the period. These plants now provide 50% of Northern Ireland's water supply. Dalriada is contracted to operate and maintain these plants for the next 25 years.
- Brey Utilities, another 50% joint venture between KWS and Earth Tech, completed its sixth year managing over 1,100 sites for the Ministry of Defence. During this time it reduced leakage by 22%, down from 40% when it took over. The company had excellent compliance with DWI standards during the period and delivered a significant capital programme.
- KWS Wales, a 100% owned subsidiary, continues to provide waste water operations and maintenance for Welsh Water (Dwr Cymru). The company had its best ever compliance with no failing works in the year.
- In Scotland, Aberdeen Environmental Services (AES), which is 45% owned by KWS, expanded the scope of its activities with Scottish Water by adding a £20m pipeline extension from the fishing village of Stonehaven to its main treatment plant at Nigg, ten miles away. Flows commenced in November 2008. GWS, which is 100% owned by KWS, operates and maintains waste water treatment plants on behalf of AES. During the period, they completed significant improvements to the plants and delivered a major increase in CHP capacity.

During the period, KWS came to agreement with AECOM, the owner of Earth Tech, to acquire Earth Tech's shareholdings in Dalriada, Brey and AES, which will result in KWS owning 100% of Dalriada and Brey and 50% of AES. The first part of this agreement, to purchase the shares in Dalriada and AES, was completed in June 2009 and the purchase of Brey shares is expected to complete later in the financial year. This purchase represents significant growth for KWS and provides the opportunity to drive further efficiencies in these companies.

KWS continues to seek further opportunities to use its knowledge and experience in bidding for relevant, major PFI non-regulated projects. During the period, KWS progressed in bidding for two separate Energy From Waste projects in Leeds and Bradford. In both cases, contract award to the successful bidder is expected in 2010.

## ***Business Review (continued)***

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### *Loop*

Loop specialises in cost effective customer relationship management. The company's main contract is to provide customer service support to Yorkshire Water. The company has had another successful year in its operations and financial results. During the year, Loop enjoyed a succession of rising scores in the Ofwat Customer Satisfaction Survey, including its highest ever score of 4.77 which resulted in an average for the year of 4.68.

### *Safe-Move*

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

### ***KeyLand Developments***

Operating profit for KeyLand and its joint ventures was £0.3m for the 71 week period. The primary source of revenue for KeyLand continues to be from the disposal or development of brownfield sites. The company has inevitably been affected by economic conditions which have made sales more difficult to achieve. However, work continues to both sell and develop land as appropriate. The timing of sales is impacted by the planning process.

## **Business Review (continued)**

### **FINANCIAL PERFORMANCE**

#### **Acquisition**

On 8 February 2008, Kelda Eurobond Co Limited (via its subsidiary Saltaire Water Limited) purchased the entire issued share capital of Kelda Group plc. Since then, the group has continued to trade and has moved to change the structure of its borrowings, as discussed below.

#### **Key financial performance indicators**

	<b>2009</b>
Operating profit before exceptional items (£m)	392.4
EBITDA (£m)	628.2

Explanation of measures provided in Appendix to Business Review on page 12

#### **Operating results for the period**

The results for the 71 week period to 31 March 2009 include the results of the Kelda Group plc companies from 8 February 2008 onwards. Before the purchase of Kelda Group plc, the group had no trade and minimal costs.

The results for the period show an operating profit before exceptional items of £392.4m. Of this, £400.1m is generated by Yorkshire Water, the main trading subsidiary. Note 3 to the financial statements shows the profit split into segments.

#### **Exceptional items for the period**

Exceptional items of £453.8m comprise the following:

	<b>2009</b>
	<b>£m</b>
<b>Included in operating costs:</b>	
Costs incurred on corporate transactions	(17.2)
Costs associated with whole business securitisation	(15.9)
Restructuring costs	(4.7)
Insurance proceeds received in relation to capital and operations	33.0
Write off book value of associated assets	(15.5)
	<b>(20.3)</b>
<b>Included in finance costs</b>	
Movement on fair value of index linked swaps	<b>(433.5)</b>

The fair value movement is a result of swaps which were taken out by the group during the period. These swaps hedge against movements in RPI by receiving interest based on LIBOR and accruing interest payable based on RPI. They are of an average 38 years in length and total £1.3bn. The swaps are held in Yorkshire Water and hedge against Yorkshire Water borrowings.

Under IFRS, these swaps must be valued at each reporting date at fair value, which at 31 March 2009 resulted in a £433.5m loss. This has been included in the income statement

## ***Business Review (continued)***

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

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

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

### **Capital structure**

During the period, the group began the proposed whole business securitisation of Yorkshire Water and its subsidiary companies, which will provide a permanent and stable platform from which the long term financing of our activities can be secured. The process has taken longer than originally anticipated, largely as a result of the changes and challenges seen in the financial markets in the second half of the period, but the process closed on 24 July 2009.

Following completion of the securitisation, creditors will benefit from the protections of a covenanted structure, with Yorkshire Water being part of a newly-created and ring-fenced "YW Financing Group", along with a holding company and finance raising subsidiaries. The YW Financing Group will carry out all its activities at arms length to all other entities, including those owned by the ultimate parent company.

### **Accounting policies**

The group accounts have been prepared in accordance with the accounting policies described in note 2 to the accounts.

### **Treasury policy**

The group's treasury operations are controlled centrally 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 and supported by guarantees as necessary. Funds raised by the holding company may be lent to other group companies at commercial rates of interest. Cash surplus to operating requirements is invested in short term instruments with institutions having a long term rating of at least A- or A3 and a short term rating of at least A1 or P1 issued by Standard and Poor's and Moody's respectively.

## ***Business Review (continued)***

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### **LOOKING FORWARD**

#### ***Yorkshire Water*** **PR09 Price Review**

Ofwat makes its final determination on investment plans and prices for the period 2010 to 2015 in November 2009. The price review is critical to our business in allowing Yorkshire Water to maintain and improve service levels and performance into the future in line with our Strategic Direction Statement.

We expect that the economic environment will continue to be challenging but we are confident that Yorkshire Water is well placed to weather the economic downturn. Our focus will continue to be improving operational performance and customer service. We will also focus on the effective completion of the AMP4 capital programme and our plans for the financing and delivery of the AMP5 capital programme.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

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

We classify principal risks in five categories:

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

#### ***Changes to the regulatory environment*** **Price Review 2009 (PR09)**

In April 2009, Yorkshire Water submitted to Ofwat its Final Business Plan for the period 2010 to 2015.

The regulator is expected to publish a draft determination in July 2009, following which it will consider final representations from the water companies. It will then publish its final determination in November 2009, with the new price limits taking effect from 1 April 2010.

#### ***Changes in legislation*** **Flood and Water Management Bill**

The draft Flood and Water Management Bill is an important piece of potential legislation which will help to clarify the roles and responsibilities of key agencies in adapting to and mitigating flood risk. It seems likely that climate change will result in more extreme rainfall events which will pose new challenges to our urban infrastructure. Yorkshire Water is committed to playing its full part in the consultation process.

#### **Cave Review of Competition**

A step-by-step approach to competition was advocated in the recent Cave Review, but it is likely that a move towards further competition for business customers will be introduced over the next few years. Cave also called for further innovation in the sector, which is supported by Yorkshire Water.

## ***Business Review (continued)***

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### **Humber Estuary Designation**

The pending European Court decision on the designation of the Humber Estuary as a sensitive water under the Urban Waste Water Treatment Directive could drive further environmental investment in Yorkshire over the next five to ten years.

### **Private to Public Sewer Transfer**

The transfer of private sewers to company ownership in 2011 will result in additional investment and a potential increase in water charges. The move will help to clarify the position of ownership which often exists around these assets and should help to prevent sewer flooding.

### ***Climatic changes***

The group's core activities, the provision of high quality water and sewerage services, are inextricably linked with the weather and therefore any climate changes have the potential to impact on business.

### ***Social influences***

The company is subject to social influences and may be required to change its business practices in light of regulatory changes brought about by stakeholder and consumer pressure.

### ***Supplier markets***

The company is also subject to external market forces, where input prices can sometimes rise beyond the regulatory allowance. For example, the recent fluctuation in energy prices and the cost of chemicals.

### ***Non-regulated businesses***

#### ***KWS***

The KWS vision is to be the best in UK water contract operations and the company is totally focussed on providing the best in water and waste water solutions on behalf of its clients in England, Scotland, Northern Ireland and Wales.

Following the agreement to purchase Earth Tech's shareholding in Dalriada, Brey and AES, the group will complete this purchase during the next financial year and will use the control gained to drive efficiencies where possible.

KWS will progress in bidding for Energy from Waste projects in both Leeds and Bradford. The bidding process is expected to last until mid 2010. The company is also actively pursuing opportunities for further growth by bidding for relevant, major PFI non-regulated projects.

#### ***Loop***

Loop will continue to invest in people and build on its industry-leading levels of customer services in its contact centre.

#### ***KeyLand***

KeyLand will continue its successful partnership approach in order to maximise shareholder value from surplus Yorkshire Water assets.

# ***Business Review – Appendix***

## *KPI Glossary of Terms*

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### **FINANCIAL KEY PERFORMANCE INDICATORS**

#### **Operating profit**

Operating profit is published in the income statement.

#### **EBITDA**

EBITDA is derived explained in note 4 to the accounts, representing operating profit before the deduction of depreciation and amortisation costs.

### **NON FINANCIAL KEY PERFORMANCE INDICATORS**

#### **Overall customer satisfaction**

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 using a combination of random telephone surveys and event-based questionnaires.

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

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

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

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

#### **Water quality**

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

## ***Business Review – Appendix (continued)***

### *KPI Glossary of Terms*

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

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

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

#### **Waste water treatment works compliance**

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

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

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

#### **Reportable and notifiable accidents**

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

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

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

## **Directors' Report (continued)**

for the 71 week period ended 31 March 2009

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The directors present their report and the audited accounts for the group for the 71 week period to 31 March 2009.

### **Incorporation and change of name**

The company was incorporated on 21 November 2007 in England and Wales as Skeldergate Eurobond Co Limited. On 3 October 2008, the company changed its name to Kelda Eurobond Co Limited.

### **Financial results for the period**

Loss for the period after tax was £430.0m. The company paid dividends of £5m during the period to its shareholders.

### **Business review**

A review of the development and performance of the business of the group, including strategy, the financial performance during the period, 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 13.

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

### **Principal activities**

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

The group's other businesses are the UK non-regulated water and waste water services business, Kelda Water Services Limited, and KeyLand Developments Limited, a company which primarily develops surplus property assets of Yorkshire Water.

### **Directors**

The directors who served during the period, including any changes, are shown below.

Juan Angoitia	(appointed 28 July 2008)
Allison Bainbridge	(appointed 19 September 2008)
Stuart Baldwin	(appointed 28 February 2008)
Colin Campbell	(appointed 28 February 2008)
Richard Cole	(appointed 21 November 2007, resigned 22 May 2008)
J-G Duthie-Jackson	(appointed 21 November 2007)
Rhys Evenden	(appointed 28 February 2008)
Instant Companies	(appointed 21 November 2007, resigned 21 November 2007)
Stephen Lilley	(appointed 21 November 2007)
Mark Lorkin	(appointed 6 March 2008)
John Napier	(appointed 19 September 2008)
Juan Bejar Ochoa	(appointed 28 February 2008)

## **Directors' Report** *(continued)*

*for the 71 week period ended 31 March 2009*

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Ang Eng Seng	(appointed 21 November 2007, resigned 1 July 2009)
Kevin Whiteman	(appointed 19 September 2008)

### **Research and development**

The group undertakes a major programme of research in pursuit of improvements in service and operating efficiency. During the period, £3.8m was committed to research and development including £3.0m on fixed assets.

### **Fixed assets**

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

### **Valuation of assets**

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

Further details are provided in note 12 to the accounts.

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

### **Payment of suppliers**

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

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the period as the amount owed to trade creditors at the period end bears to the amounts invoiced by suppliers during the period) is 28 days.

### **Employees and employment policies**

The group strives to create a positive working environment for all colleagues and places great emphasis on open two-way communications. It values involvement and engagement at all levels, recognising that everyone in the business is a potential source of innovation and change. Internal consultation and communication processes provide the key to this involvement and play a major part in achieving our vision to be a great place to work.

The group's communications strategy is based on a 'face to face first' approach and all messages are delivered through 'two-way' channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and senior management. The group magazine

## **Directors' Report (continued)**

for the 71 week period ended 31 March 2009

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*Connections* is distributed throughout the business and aims to provide business news through the eyes of the group's employees.

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

The group promotes freedom of association, principally through its diversity strategy and through its information and consultation framework. In addition to collective bargaining arrangements with its recognised trade unions, consultative forums take place across the group, comprising elected (union and non-union) employees who meet regularly with directors and senior managers.

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. Yorkshire Water has won an award sponsored by *Personnel Today* for Diversity in the Workplace, following a diversity recruitment project and a successful diversity conference for colleagues and external colleagues. The group's business-focused approach to diversity has also featured as a case study on a website created by the London Development Agency for businesses in their region. During the period, we have run a series of events focusing on six themes including, part-time working, gender, disability, stereotypes, mental health and religious beliefs. These events have been welcomed by managers and have continued to raise awareness about diversity. We have an active approach to keeping employees who become disabled in employment and our commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK Employment Service.

A 'total reward' approach is taken 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.

As Kelda looks forward, the group is focused on planning for future roles and skills, ensuring that plans are in place to meet our needs. Our approach includes understanding people's career aspirations, meeting development needs and actively mitigating resourcing challenges to ensure that we retain our best talent.

The group places value and emphasis on the development of leadership capability and believes that everyone can demonstrate leadership skills. This commitment is demonstrated through our focus on leadership development for managers and senior managers across the business and the group's commitment to embedding a coaching culture. This enables people to learn and grow by identifying and focusing on their own development areas. The group provides a wide range of development opportunities, including in-house and accredited programmes to help employees develop the necessary skills, knowledge, values and experience to realise their performance potential.

### **Health and safety**

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

## **Directors' Report (continued)**

for the 71 week period ended 31 March 2009

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The group operates within a framework of policy procedural requirements and must have in place appropriate health and safety policies and procedures and provide necessary information, instruction, training and supervision. In addition, the group provides occupational health, safety and welfare advisory services for employees. Specific health and safety goals are also set by individual businesses. These goals differ depending on the business and include a combination of reductions of accidents and working time lost as a result of accidents, training delivery, internal safety audits and health promotion and surveillance programmes.

Senior management awareness and active employee involvement in health and safety is fundamental to group success. A new Think Safety First programme was launched in Yorkshire Water during 2006 and is further developed each year. This programme includes projects for sharing personal accident experiences, promoting key safety messages, managers leading by example, rewarding and recognising colleagues and implementing a behavioural safety coaching process.

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

By the nature of accidents, there can be no guarantee that they will never occur. However, the measures taken by the group are intended to place emphasis on prevention and continuing vigilance. Yorkshire Water has again been awarded a National Safety Award from the British Safety Council and a Gold Award for Occupational Safety from the Royal Society for the Prevention of Accidents for its health and safety performance during the period.

### **Environment**

The environmental policy of the group recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business. Environmental performance is reported through the group's website which is regularly updated. This can be viewed at <http://csr.keldagroup.com>

### **Community**

The group contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds.

### **Charitable and political donations**

Charitable donations totalling £0.7m were made during the period. No political donations were made.

## **Directors' Report** *(continued)*

*for the 71 week period ended 31 March 2009*

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### **Auditors**

The group policy to safeguard the independence and objectivity of the external auditors is included in the corporate governance section on page 20.

### **Financial instruments**

Details are provided in the accounts section under note 23.

### **Likely future developments**

Future events are dealt with on page 10 in the "Looking Forward" section.

### **Annual general meeting**

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

By order of the Board



Allison Bainbridge  
Director  
28 July 2009

Company secretary:  
Stuart McFarlane

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

# **Corporate Governance Report**

*for the 71 week period ended 31 March 2009*

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## **Corporate governance**

Throughout the period the board remained accountable to the group's shareholders for maintaining standards of corporate governance, as set out below:

### **The board of directors**

The board held four 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.

All new directors, where applicable, received 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. There is an agreed procedure for directors to take independent professional advice at the group's expense in furtherance of their duties in relation to board or committee matters. Directors have access to the company secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports.

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

At the end of the period, the board comprised a chairman, two executive directors and eight non executive directors.

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

### **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.

### **Remuneration committee**

Members of the committee during the period were J Napier (committee chairman), J G Duthie-Jackson, R Evenden and S Lilley.

### **Audit committee**

The audit committee is made up of four non-executive directors of Kelda Holdings Limited, namely J Napier, R Evenden, J Angoitia and S Lilley, and Roger Hyde, a non-executive director of Yorkshire Water. The chairman of the audit committee is S Lilley. The external

# **Corporate Governance Report** *(continued)*

*for the 71 week period ended 31 March 2009*

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auditors, the head of internal audit and the company secretary attend all meetings. The group finance director 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. The committee chairman reports on the activities of the committee to the group board meeting immediately following each committee meeting.

The audit committee's key tasks include:

- reviewing and monitoring of the integrity of the annual financial statements;
- reviewing the company's system of internal control, including financial, operational, compliance and risk management;
- overseeing the company's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence and objectivity of the external auditors; and
- monitoring and reviewing the effectiveness of the internal audit function.

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

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

The 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 company'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 split between audit and non audit fees for the period appears in note 4 to the 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 auditors.

## **Corporate social responsibility committee**

The committee recommends to the board appropriate corporate social responsibility policies and procedures. It is responsible for the updating the corporate social responsibility review which is available on the internet at <http://csr.keldagroup.com>

## **Internal Control**

The board is responsible for the group's system of internal control and for reviewing its effectiveness. An ongoing process, in accordance with the guidance of the Turnbull Committee on Internal Control, has been established for identifying, evaluating and managing the significant risks faced by the company and this has been in place for the period under review and up to the date of approval of the report and accounts. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of

## **Corporate Governance Report (continued)**

*for the 71 week period ended 31 March 2009*

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failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. During the period, material joint ventures have been dealt with as part of the group for the purpose of applying the guidance.

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

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 businesses.
- 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.
- A risk management forum has been established with formal terms of reference comprising senior management from key disciplines and operating companies. It advises and assists operational managers and the board on the implementation of the risk management process and monitors risk on behalf of the board. It reports to the audit committee.
- Business units are required to report annually on principal business risks and the operation of control mechanisms.
- The internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process.

The audit committee reviews and monitors the effectiveness of the process on behalf of the board.

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

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.

# **Corporate Governance Report** *(continued)*

*for the 71 week period ended 31 March 2009*

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## **Going concern**

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

## **Directors' statement as to disclosure of information to auditors**

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

## **Independent auditors**

PricewaterhouseCoopers LLP were appointed auditors during the period and have indicated their willingness to continue in office.

BY ORDER OF THE BOARD



Allison Bainbridge  
Director  
28 July 2009

## **Statement of directors' responsibility**

*for the 71 week period ended 31 March 2009*

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The directors are responsible for preparing the report and the group and the parent company 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD



Allison Bainbridge  
Director  
28 July 2009

# ***Independent Auditors' Report to the members of Kelda Eurobond Co Limited***

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We have audited the group financial statements of Kelda Eurobond Co Limited for the 71 week period ended 31 March 2009 which comprise the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognised income and expense and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Kelda Eurobond Co Limited for the 71 week period ended 31 March 2009.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 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.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the report and consider whether it is consistent with the audited group financial statements. The other information comprises only the directors' report and the business review and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

# **Independent Auditors' Report to the members of Kelda Eurobond Co Limited**

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## **Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2009 and of its loss and cash flows for the period then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Leeds

28 July 2009

## **Group income statement**

for the 71 week period ended 31 March 2009

	Note	2009 £m
<b>Group revenue</b>	3	1,055.6
Operating costs	4	(663.2)
Exceptional items	5	(20.3)
<b>Total operating costs</b>		<b>(683.5)</b>
<b>Group operating profit before share of associates and joint ventures</b>		<b>372.1</b>
Share of associates' and joint ventures' loss after tax		(2.4)
<b>Group operating profit from continuing operations</b>	3	<b>369.7</b>
Investment income	7	133.2
Finance costs	7	(446.9)
Exceptional finance costs	5	(433.5)
<b>Total finance costs</b>		<b>(880.4)</b>
<b>Loss from continuing operations before taxation</b>		<b>(377.5)</b>
Tax charge	8	(52.5)
<b>Loss for the period attributable to equity shareholders</b>	22	<b>(430.0)</b>

## **Group statement of recognised income and expense**

for the 71 week period ended 31 March 2009

	Note	2009 £m
Losses on hedges taken to equity		(25.8)
Actuarial losses in respect of defined benefit pension	20	(68.2)
Tax on items taken directly to equity	8	26.3
Other		0.7
<b>Total of items taken directly to equity</b>		<b>(67.0)</b>
Loss for the period attributable to equity shareholders		(430.0)
<b>Total recognised income and expense for the period</b>		<b>(497.0)</b>

# Group balance sheet

as at 31 March 2009

	Note	2009 £m
<b>Non-current assets</b>		
Intangible assets - goodwill	11	1,799.2
Property, plant and equipment	12	4,829.6
Investments in associated undertakings and joint ventures	13	0.4
Loans to associated undertakings and joint ventures	13	24.4
		<b>6,653.6</b>
<b>Current assets</b>		
Inventories	14	1.0
Trade and other receivables	15	184.3
Cash and cash equivalents	16	8.9
Short term deposits	16	131.3
Assets included in disposal groups held for sale	9	7.3
		<b>332.8</b>
<b>Total assets</b>		<b>6,986.4</b>
<b>Current liabilities</b>		
Trade and other payables	17	(310.5)
Financial liabilities	23	(0.5)
Tax liabilities		(31.4)
Short-term borrowings	16	(31.6)
Liabilities included in disposal groups held for sale	9	(20.3)
		<b>(394.3)</b>
<b>Non-current liabilities</b>		
Long-term borrowings	16	(4,957.2)
Long-term payables	17	(38.3)
Financial liabilities	23	(458.5)
Deferred grants and contributions on depreciated assets	17	(75.6)
Retirement benefits deficit	20	(34.0)
Provisions	18	(0.5)
Deferred tax liabilities	19	(722.3)
		<b>(6,286.4)</b>
<b>Total liabilities</b>		<b>(6,680.7)</b>
<b>Net assets</b>		<b>305.7</b>
<b>Capital and reserves attributable to equity holders of the company</b>		
Issued share capital	21	750.0
Hedging reserve	22	(17.6)
Revaluation reserve	22	52.8
Share-based payment reserve	22	4.8
Retained earnings - deficit	22	(484.3)
<b>Total equity attributable to equity holders of the parent</b>		<b>305.7</b>

Approved by the board of directors on 28 July 2009 and signed on their behalf by:

  
Allison Bainbridge  
Director of Finance

## **Group cash flow statement**

for the 71 week period ended 31 March 2009

	Note	2009 £m
<b>Cash flows from operating activities</b>	25	<b>678.7</b>
Income taxes paid		(25.1)
Interest paid		(414.2)
<b>Net cash generated from operating activities</b>		<b>239.4</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries	11	(3,063.5)
Interest received		82.6
Loans to associates and joint ventures		(3.8)
Proceeds on disposals of property, plant and equipment		0.2
Purchases of property, plant and equipment		(368.3)
Capital grants and contributions		5.9
<b>Net cash used in investing activities</b>		<b>(3,346.9)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	10	(5.0)
Borrowings raised (net of fees)		2,273.7
Share capital on incorporation	21	750.0
Initial loan from parent company		253.9
Repayment in loan to parent company		(27.1)
Net proceeds from other borrowings		7.9
Repayment of obligations under finance leases and hire purchase agreements		(5.7)
<b>Net cash used in financing activities</b>		<b>3,247.7</b>
<b>Net increase in cash and cash equivalents</b>		<b>140.2</b>
<b>Cash and cash equivalents on incorporation</b>		<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	16	<b>140.2</b>

# **Notes to the financial statements**

*for the 71 week period ended 31 March 2009*

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## **1. Authorisation of financial statements**

The group's financial statements for the 71 week period ended 31 March 2009 were authorised for issue by the board of directors on 28 July 2009 and the balance sheet was signed on the board's behalf by Allison Bainbridge, Group Director of Finance. Kelda Eurobond Co Limited is a limited company incorporated and domiciled in England and Wales.

## **2. Accounting policies**

### **(A) Basis of preparation**

#### **Basis of accounting**

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and Companies' Act 1985 as they apply to the financial statements of the group for the period ended 31 March 2009.

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

#### **Basis of consolidation**

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

### **(B) Accounting policies**

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

#### **Foreign currencies**

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

On consolidation, the income statements of the overseas subsidiaries are translated at the average exchange rates for the period and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve. Exchange differences on foreign currency borrowings that provide a hedge against a net

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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

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

### **Revenue**

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

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

### **Net operating costs**

Net operating costs include the following:

#### *Dividends receivable*

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

#### *Rental income*

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

#### *Other operating income*

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

### **Investment income**

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

### **Dividends payable**

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

### **Research and development expenditure**

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

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

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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### **Taxation**

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

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

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

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

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

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

### **Goodwill and intangible assets**

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

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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

### **Property, plant and equipment**

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

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

Useful economic lives are principally as follows:

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

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

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

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

### **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.

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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### **Accounting for leases**

#### **(i) Finance leases**

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

#### **(ii) Operating leases**

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

### **Government grants and contributions**

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

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

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

### **Investments in joint ventures and associates**

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

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

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

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.

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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### **Inventories**

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

### **Provisions**

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

### **Financial instruments**

#### **Cash and cash equivalents**

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

#### **Trade and other receivables**

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

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

#### **Trade and other payables**

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

#### **Interest bearing loans and borrowings**

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

#### **Derivative financial instruments**

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

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

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

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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

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

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

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

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

### **Employee benefits**

#### **(a) Pension plans**

##### **(i) Defined contribution scheme**

The group operates 3 defined contribution schemes for those members of staff who are not members of its defined benefit scheme. 2 pension plans exist under which the group pays a fixed contribution into a separate entity which operates the schemes. The other provides the employees with a lump sum on retirement, with which they then invest in an annuity. Other than this contribution, the group has no further legal or constructive obligation to make further contributions to the scheme.

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

##### **(ii) Defined benefit scheme**

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

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

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

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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

### **(b) Equity settled share based payments**

#### ***Savings related share option scheme***

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

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

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

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

### **Investment in own shares**

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

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

### **Segmental reporting**

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

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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

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

### **Disposal groups held for sale**

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

### **Exceptional items**

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

### **Principal areas of judgement**

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

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

### **(C) New standards and interpretations**

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

IFRS 8	Operating segments
IAS 23	Borrowing costs (revised)
IAS 1	Presentation of financial statements (revised)
IFRS 2	Share based payment (amendment)
IAS 27	Consolidated and separate financial statements (revised)
IFRS 3	Business combinations (revised)
IAS 32	Financial instruments: Presentation (amendment) and amendments to IAS 1
IFRS 1	First time adoption of IFRS and amendments to IAS 27 Consolidated and separate financial statements Improvements to IFRS
IAS 39	Financial instruments: recognition and measurement (amendment) and consequential amendments to IFRS 7 Financial instruments: Disclosure
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction
IFRIC 15	Agreement for the construction of real estate
IFRIC 16	Hedges of a net position in a foreign operation
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfers of assets from customers

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

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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### **3. Segmental information**

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

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

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

# Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

## 71 week period ended 31 March 2009

	UK regulated water services	KWS - group	KWS - JVs	Loop	KeyLand -group	KeyLand - assoc	Other non-reg and holding companies	Total continuing	Reallocation to other operating income	Less associates and JVs	Total continuing after reallocations	US operations (discontinued)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue	942.2	102.4	77.7	23.3	4.9	5.3	10.2	1,166.0	(4.2)	(83.0)	1,078.8	9.2	1,088.0
Inter-company revenue	-	(1.1)	-	(18.7)	(0.7)	-	(2.7)	(23.2)	-	-	(23.2)	-	(23.2)
External revenue	942.2	101.3	77.7	4.6	4.2	5.3	7.5	1,142.8	(4.2)	(83.0)	1,055.6	9.2	1,064.8
Depreciation	(233.8)	(0.8)	-	(0.2)	(0.9)	-	-	(235.7)	-	-	(235.7)	-	(235.7)
Amortisation of deferred grant income	3.1	-	-	-	-	-	-	3.1	-	-	3.1	-	3.1
Other operating costs	(311.4)	(99.8)	(69.7)	(3.6)	(4.0)	(4.3)	(16.0)	(508.8)	4.2	83.0	(421.6)	(9.2)	(430.8)
	<b>400.1</b>	<b>0.7</b>	<b>8.0</b>	<b>0.8</b>	<b>(0.7)</b>	<b>1.0</b>	<b>(8.5)</b>	<b>401.4</b>	<b>-</b>	<b>-</b>	<b>401.4</b>	<b>-</b>	<b>401.4</b>
Exceptional items in operating costs								(20.3)	-	-	(20.3)	-	(20.3)
								<b>381.1</b>	<b>-</b>	<b>-</b>	<b>381.1</b>	<b>-</b>	<b>381.1</b>
Less associates' and joint ventures' interest								(11.1)	-	-	(11.1)	-	(11.1)
Less associates' and joint ventures' tax								(0.3)	-	-	(0.3)	-	(0.3)
<b>Group operating profit from continuing operations</b>								<b>369.7</b>	<b>-</b>	<b>-</b>	<b>369.7</b>	<b>-</b>	<b>369.7</b>
Investment income													133.2
Finance costs													(446.9)
Exceptional items in finance costs													(433.5)
<b>Loss from continuing operations before taxation</b>											<b>(377.5)</b>		
Tax expense											(52.5)		
<b>Loss for the period attributable to equity shareholders</b>											<b>(430.0)</b>		

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

	UK regulated water services £m	KWS - group £m	Loop £m	KeyLand - group £m	Other non-reg and holding companies £m	Total continuing £m	US operations (discontinued) £m	Total £m
Assets	4,511.1	66.1	0.9	34.1	2,226.7	6,838.9	7.3	6,846.2
Liabilities	(1,180.5)	(28.4)	(2.0)	(4.2)	(456.5)	(1,671.6)	(20.3)	(1,691.9)
Net Debt	(2,822.6)	-	-	-	(2,026.0)	(4,848.6)	-	(4,848.6)
<b>Net Assets</b>	<b>508.0</b>	<b>37.7</b>	<b>(1.1)</b>	<b>29.9</b>	<b>(255.8)</b>	<b>318.7</b>	<b>(13.0)</b>	<b>305.7</b>
<b>Other Information</b>								
Capital additions	394.5	-	-	-	3.1	397.6	-	397.6

Net debt of £4,848.6m as noted above includes cash of £8.9m and short term deposits of £131.3m which are included in the balance sheet within total assets and liabilities of £4,988.8m which are included on the balance sheet in total liabilities. Net debt is defined in note 23, and does not include financial liabilities.

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

	United Kingdom £m	North America (discontinued) £m	Total £m
Sales revenue	1,055.6	9.2	1,064.8
Carrying value of assets	6,838.9	7.3	6,846.2
Capital additions to property, plant and equipment	397.6	-	397.6

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 4. Operating costs

	Continuing operations	Discontinued operations	Total
	£m	£m	£m
Own work capitalised	(31.6)	-	(31.6)
Raw materials and consumables	18.9	-	18.9
Other external charges	293.2	17.2	310.4
Staff costs (see note 6)	137.9	-	137.9
Depreciation of property, plant and equipment			
On owned assets - UK infrastructure	63.5	-	63.5
- other assets	160.7	-	160.7
On assets held under finance lease			
- UK infrastructure	2.1	-	2.1
- other assets	9.4	-	9.4
Operating lease rentals - minimum lease payments			
- plant and equipment	2.4	-	2.4
- other	0.4	-	0.4
Amortisation of grants and contributions	(3.1)	-	(3.1)
Amortisation of intangible assets	0.1	-	0.1
Research and development	0.8	-	0.8
Impairment of trade receivables	12.1	-	12.1
Other operating income	(3.6)	-	(3.6)
	<b>663.2</b>	<b>17.2</b>	<b>680.4</b>

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

	2009
	£m
Group operating profit before share of associates and joint ventures	372.1
Add back exceptional items	20.3
Add back depreciation (as above)	235.7
Add back amortisation of intangible assets	0.1
<b>EBITDA</b>	<b>628.2</b>

### Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	2009
	£m
Audit of the financial statements	0.1
Other fees to auditors:	
- local statutory audits for subsidiaries	0.1
- taxation services	
- valuation and actuarial services	0.2
- other services	0.3
	<b>0.6</b>
	<b>0.7</b>

Audit costs of the company are borne by a subsidiary company.

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

### **5. Exceptional items**

Exceptional items comprise:

	<b>2009</b>
	<b>£m</b>
<b>Included in operating costs:</b>	
Costs incurred on corporate transactions	(17.2)
Costs associated with whole business securitisation	(15.9)
Restructuring costs	(4.7)
Insurance proceeds received in relation to capital and operations	33.0
Write off book value of associated assets	(15.5)
	<b>(20.3)</b>
<b>Included in finance costs</b>	
Movement on fair value of index linked swaps	<b>(433.5)</b>

The movement of fair value of index linked swaps is a result of swaps which were taken out by the group during the period. These swaps hedge against movements in RPI by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2009 represents a £433.5m loss.

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

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

Restructuring costs relate to redundancy and other restructuring costs within one of the divisions of Yorkshire Water.

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

**Notes to the financial statements (continued)**  
for the 71 week period ended 31 March 2009

**6. Directors and employees**

	<b>2009</b>
	<b>Number</b>
<b>Average monthly number of people employed</b>	
<b>Continuing operations:</b>	
UK regulated water services	2,194
Other activities	1,180
	<b>3,374</b>
	<b>2009</b>
	<b>£m</b>
<b>Total employment costs:</b>	
Wages and salaries	111.9
Social security contributions	9.8
Other pension costs	16.2
	<b>137.9</b>

Included in wages and salaries is a total share-based payment expense of £0.5m, all of which relates to transactions accounted for as an equity-settled share-based payments.

**Directors' emoluments**

All of the directors were also directors of Kelda Holdings Limited, and their emoluments are disclosed in those accounts.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 7. Investment income and finance costs

	2009 £m
<b>Investment income</b>	
Interest on bank deposits	20.3
Income from interest rate swap	62.3
Return on pension scheme assets (see note 20)	50.6
<b>Total investment income</b>	<b>133.2</b>
<b>Finance costs</b>	
6.625% bond 2031	15.9
6.875% guaranteed bonds 2010	13.9
5.375% bond 2023	10.7
3.048% Index linked guaranteed bond 2033	8.9
1.46% Index linked guaranteed bond 2056	2.2
1.462% Index linked guaranteed bond 2051	2.2
1.758% Index linked guaranteed bond 2054	1.7
1.823% Index linked guaranteed bond 2050	1.4
1.7085% Index linked guaranteed bond 2058	1.9
5.5% Index linked guaranteed bond 2027	8.3
5.125% Index linked guaranteed bond 2037	10.3
Amortisation of issue costs in respect of bonds	0.5
<b>Total finance costs for bonds</b>	<b>77.9</b>
Bank loans and overdrafts	18.0
Other loans	146.4
Loan notes issued by Kelda PIK Co Limited	53.6
Eurobonds issued by Kelda Eurobond Co Limited	63.3
Finance leases	23.1
Interest payable to parent companies	18.4
Interest cost on pension scheme liabilities (see note 20)	46.2
<b>Total finance costs</b>	<b>446.9</b>

No interest has been capitalised by the group during the period.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 8. Taxation expense

	2009 £m
<b>Current tax</b>	
UK corporation tax at 28%	22.7
<b>Total current tax from continuing operations</b>	<b>22.7</b>
<b>Deferred tax</b>	
UK charge for temporary differences arising and reversing in the period	29.8
<b>Total deferred tax on continuing activities (see note 19)</b>	<b>29.8</b>
<b>Total tax charge on profit on ordinary activities</b>	<b>52.5</b>
<b>Tax relating to items charged or credited to equity</b>	
<b>Deferred tax:</b>	
Actuarial losses in respect of defined benefit pension schemes	(19.1)
Loss on hedges	(7.2)
<b>Tax credit in the group statement of recognised income and expense</b>	<b>(26.3)</b>

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

	2009 £m
Loss from continuing operations before taxation	(377.5)
Less: share of associates' and joint ventures' taxation	0.3
Loss on ordinary activities before tax	<b>(377.2)</b>
Less: share of associates' and joint ventures' loss before tax	2.1
Group loss on ordinary activities before tax	<b>(375.1)</b>
Current and deferred tax on group loss on ordinary activities at the standard UK tax rate	(105.0)
Effects of:	
Expenses not deductible for tax purposes	24.7
Difference in tax rate for long accounting period	(0.5)
Write off of deferred tax asset due to phase out of Industrial Buildings Allowances	133.3
<b>Group current and deferred tax charge for the period</b>	<b>52.5</b>

Deferred tax charge for the period relates to the following:

	2009 £m
Accelerated depreciation for tax purposes	144.1
Fair value adjustment of infrastructure assets	4.9
Financial instruments	(121.2)
Retirement benefit obligations	2.0
<b>Deferred tax charge</b>	<b>29.8</b>

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

### **9. Discontinued operations**

The group owns a company trading in the US which is classified as discontinued.

The results of these operations which are included within the group's results are summarised below:

	<b>2009</b>
	<b>£m</b>
Revenue	9.2
Expenses	(17.2)
Release of provision	8.0
<b>Operating result</b>	<b>-</b>

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

	<b>2009</b>
	<b>£m</b>
<b>Assets</b>	
Trade receivables	7.3
<b>Liabilities</b>	
Trade and other payables	(20.3)

### **10. Dividends**

	<b>2009</b>
	<b>£m</b>
Paid to ESOT	0.3
Interim paid	4.7
<b>Dividends paid</b>	<b>5.0</b>

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 11. Intangible assets

	Capitalised bid costs £m	Goodwill £m	Total £m
On incorporation	-	-	-
On acquisition of subsidiaries	0.1	1,799.2	1,799.3
Amortisation	(0.1)	-	(0.1)
<b>At 31 March 2009</b>	<b>-</b>	<b>1,799.2</b>	<b>1,799.2</b>

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

The calculation of goodwill was as follows:

	£m
Consideration for the purchase of issued ordinary share capital	3,003.7
Consideration for the purchase of issued B share capital	10.9
Other costs directly attributable to the acquisition	48.9
	<b>3,063.5</b>
Less: Fair value of asset acquired (see below)	1,264.3
<b>Goodwill</b>	<b>1,799.2</b>

The fair value and book value of assets and liabilities of Kelda Group plc at the date of acquisition were as follows:

	Fair value £m	Book value £m	Difference £m
Intangible fixed assets	-	14.2	(14.2)
Tangible fixed assets	4,618.0	4,142.9	475.1
Pension surplus	27.3	27.3	-
Current assets	216.0	216.0	-
Current liabilities	(478.3)	(478.3)	-
Deferred tax provision	(718.5)	(585.8)	(132.7)
Borrowings and net debt	(2,400.2)	(2,541.7)	141.5
<b>Net assets</b>	<b>1,264.3</b>	<b>794.6</b>	<b>469.7</b>

Adjustments to tangible fixed assets relate to regulatory assets, land and buildings and fixtures and fittings. Adjustments to borrowings and net debt relate to publicly traded bonds for which market

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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values are obtainable. Adjustments to deferred tax provision relate to the above adjustment to tangible fixed assets.

The directors performed an exercise on acquisition to identify any separable intangible assets within the business. No separable intangible assets were identified.

### **Impairment tests for goodwill**

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to operating segment. Due to the materiality of balances, the entire goodwill is allocated to Yorkshire Water.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period and, where appropriate, longer. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

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

	<b>2009</b>
Long term inflation (post 2010)	2.5%
Discount rate (post-tax, before inflationary growth)	4.76%
Discount rate (post-tax, after inflationary growth)	7.38%

Discount rates are based on those proposed in Yorkshire Water's Draft Determination submitted to Ofwat this year.

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

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 12. Property, plant and equipment

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

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost	126.5	99.9	207.1	-	433.5
Depreciation	(29.6)	(17.5)	(117.2)	-	(164.3)
<b>Net book amount at 31 March 2009</b>	<b>96.9</b>	<b>82.4</b>	<b>89.9</b>	<b>-</b>	<b>269.2</b>

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

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

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

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the period ended 31 March 2009 resulted in a revaluation surplus of £52.8m (see note 22).

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

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

Categories of assets revalued are as follows:

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

Analysis of net book value of revalued assets:

	Revalued amount £m	Historical cost basis £m
At cost	56.1	5.1
Aggregated depreciation	-	(1.8)
<b>Net book amount at 31 March 2009</b>	<b>56.1</b>	<b>3.3</b>

### 13. Investments

	Share of net assets in associated undertakings £m	Loans to associated undertakings £m	Total investments in associated undertakings £m	Share of net assets in joint ventures £m	Loans to joint ventures £m	Total investments in joint ventures £m
<b>Cost and share of post acquisition retained losses</b>						
On incorporation	-	-	-	-	-	-
On acquisition of subsidiary	0.3	6.3	6.6	2.5	14.3	16.8
Share of retained loss for the period	(0.7)	-	(0.7)	(1.7)	-	(1.7)
Movement in the period	-	(3.9)	(3.9)	-	7.7	7.7
<b>At 31 March 2009</b>	<b>(0.4)</b>	<b>2.4</b>	<b>2.0</b>	<b>0.8</b>	<b>22.0</b>	<b>22.8</b>

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

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

	2009 £m
Non-current assets	7.9
Current assets	5.8
<b>Share of gross assets</b>	<b>13.7</b>
Current liabilities	(14.1)
Non-current liabilities	-
<b>Share of liabilities</b>	<b>(14.1)</b>
<b>Share of net liabilities</b>	<b>(0.4)</b>
<b>Revenue</b>	<b>5.3</b>
<b>Operating profit</b>	<b>1.0</b>

The aggregate amounts of net assets and net loss relating to joint ventures are:

Non-current assets	110.3
Current assets	32.9
<b>Share of gross assets</b>	<b>143.2</b>
Current liabilities	(30.3)
Non-current liabilities	(112.1)
<b>Share of liabilities</b>	<b>(142.4)</b>
<b>Share of net assets</b>	<b>0.8</b>
Revenue	77.7
Operating costs	(69.7)
<b>Operating profit</b>	<b>8.0</b>
Finance costs	(7.5)
<b>Profit before tax</b>	<b>0.5</b>
Income tax	(2.2)
<b>Net loss</b>	<b>(1.7)</b>

### 14. Inventories

	2009 £m
Raw materials and consumables	1.0

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 15. Trade and other receivables

	2009 £m
Trade receivables	96.5
Provision for impairment of trade receivables	(18.2)
Amounts owed by associated undertakings	1.3
Prepayments and accrued income	73.3
Other debtors	31.4
	<b>184.3</b>

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairments considered necessary have been made to the amounts included above. See note 23 for further details of credit risks associated with financial instruments.

Trade receivables can be analysed as follows:

	2009 £m
<b>Main charges trade debtors:</b>	
Past due but not impaired	72.9
Past due and impaired	18.2
<b>Other trade debtors:</b>	
Past due but not impaired	5.4
	<b>96.5</b>

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

	2009 £m
<b>Main charges trade debtors:</b>	
Less than one year overdue	59.0
Between one and two years overdue	8.3
Between two and three years overdue	3.2
Between three and four years overdue	1.3
More than four years overdue	1.1
<b>Other trade debtors:</b>	
Less than one year overdue	5.4
	<b>78.3</b>

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

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

	2009 £m
<b>Main charges trade debtors:</b>	
Less than one year overdue	11.9
Between one and two years overdue	3.6
Between two and three years overdue	1.5
Between three and four years overdue	0.6
More than four years overdue	0.6
	<b>18.2</b>

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

	2009 £m
Provision on acquisition of subsidiary	16.3
Provision for impairment	12.1
Amounts written off	(10.2)
	<b>18.2</b>

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

	2009 £m
Cash at bank and in hand	8.9
Short-term deposits	131.3
	<b>140.2</b>

At 31 March 2009, the group had available £807.0m of undrawn committed borrowing facilities; of this £377.0m is only available to replace EIB bank debt if withdrawn.

#### (ii) Borrowings

	2009 £m
<b>Short-term borrowings:</b>	
Bank loans	25.0
Loan notes	0.6
Finance leases	6.0
	<b>31.6</b>

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

	<b>2009</b>
	<b>£m</b>
<b>Long term borrowings:</b>	
Bank loans	777.2
6.625% guaranteed bonds 2031	248.2
6.875% guaranteed bonds 2010	204.0
5.375% guaranteed bonds 2023	182.9
3.048% index linked guaranteed bonds 2033	141.7
1.462% index linked guaranteed bonds 2051	88.7
1.46% index linked guaranteed bonds 2056	91.4
5.5% guaranteed bonds 2027	137.8
5.125% guaranteed bonds 2037	181.7
1.8225% index linked guaranteed bonds 2050	54.1
1.75756% index linked guaranteed bonds 2054	68.4
1.7085% index linked guaranteed bonds 2058	78.0
Loan notes issued by Saltaire Water Limited	62.3
Loan notes issued by Kelda PIK Co Limited	441.3
Eurobonds issued by Kelda Eurobond Co Limited	526.1
Bank loans under Senior Holdco facility	1,037.4
Other loans	19.6
Finance leases	389.6
Amounts owed to parent companies	226.8
	<b>4,957.2</b>

### **6.625% guaranteed bonds 2031**

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

### **6.875% guaranteed bonds 2010**

These bonds are repayable in one sum on 23 April 2010. Interest is charged at 6.875%.

### **5.375% guaranteed bonds 2023**

These bonds are repayable in one instalment on 21 February 2023. Interest is charged at 5.375%.

### **3.048% index linked guaranteed bonds 2033**

These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.048% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

### **1.462% index linked guaranteed bonds 2051**

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

### **1.46% index linked guaranteed bonds 2056**

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

### **5.5% guaranteed bonds 2027**

These bonds are repayable in one instalment on 28 May 2027. The interest is paid at 5.5%.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 5.125% guaranteed bonds 2037

These bonds are repayable in one instalment on 28 May 2037. The interest is paid at 5.125%.

### 1.8225% index linked guaranteed bonds 2050

These bonds are repayable in one instalment on 1 February 2050. The interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

### 1.75756% index linked guaranteed bonds 2054

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

### 1.7085% index linked guaranteed bonds 2058

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

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

### Bank Loans

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

### (iii) Finance leases

	<b>Minimum lease payments 2009 £m</b>
Amounts payable under finance leases:	
Within one year	51.4
More than one but less than five years	229.6
After five years	437.2
	<b>718.2</b>
Less: future finance charges	(322.6)
Present value of lease obligations	<b>395.6</b>
Amount due for settlement within 12 months	6.0
Amount due for settlement after 12 months	389.6
	<b>395.6</b>

All lease obligations are denominated in sterling.

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

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 17. Trade and other payables

	2009 £m
<b>Amounts falling due within one year:</b>	
Trade payables	58.9
Capital payables	61.2
Deferred grants and contributions on depreciated property, plant and equipment	3.0
Social security and payroll deductions	2.6
Receipts in advance	53.5
Other payables	131.3
	<b>310.5</b>
<b>Amounts falling due after more than one year:</b>	
Deferred grants and contributions on depreciated property, plant and equipment	75.6
Other payables	38.3
	<b>113.9</b>

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

### 18. Provisions

	£m
On incorporation	-
On acquisition of subsidiaries	0.5
<b>At 31 March 2009</b>	<b>0.5</b>

### 19. Deferred tax

	Accelerated capital allowances £m	Fair value adjustment of infrastructure assets £m	Roll-over relief £m	Financial instruments £m	Pension obligations £m	Total £m
On incorporation	-	-	-	-	-	-
On acquisition of subsidiaries	681.2	27.2	1.0	0.4	9.0	718.8
Charge/ (credit) to income statement	144.1	4.9	-	(121.2)	2.0	29.8
Credit to equity	-	-	-	(7.2)	(19.1)	(26.3)
<b>At 31 March 2009</b>	<b>825.3</b>	<b>32.1</b>	<b>1.0</b>	<b>(128.0)</b>	<b>(8.1)</b>	<b>722.3</b>

The group has unrecognised capital losses of £11.8m which are available indefinitely against future eligible capital profits of the group.

No deferred tax asset has been recognised on capital losses as their utilisation is not currently foreseen.

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

### **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 the Kelda Group plc group before its acquisition by Kelda Eurobond Co Limited group. The KGPP has a number of benefit categories providing benefits on a defined benefit basis and a defined contribution basis.

Contributions over the period ended 31 March 2009 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The majority of members now pay contributions through a salary sacrifice arrangement with effect from 1 October 2008. The group contributed at 475% of members' contributions up to 30 September 2008 and 22.2% of pensionable pay thereafter in respect of the majority of members. The group also paid a deficit contribution of £290,000 in March 2009.

An accrual for unfunded benefits of £3.2m has been included in the group's accounts at 31 March 2009.

#### **(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.

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

#### **(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.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

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

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

	2009 £m
Analysis of amount charged to operating costs:	
Current service cost	14.7
Past service cost	1.9
Analysis of amount (credited)/charged to other investment income/finance costs:	
Expected return on pension scheme assets	(50.6)
Interest on pension scheme liabilities	46.2
<b>Amounts charged to the income statement before taxation</b>	<b>12.2</b>
Analysis of amounts recognised in group statement of recognised income and expense:	
Actual return less expected return on pension scheme assets	(200.0)
Experience gains and losses arising on the scheme's liabilities	5.9
Changes in assumptions underlying the present value of the scheme's liabilities	125.9
<b>Actuarial loss recognised in the group statement of recognised income and expense</b>	<b>(68.2)</b>

Actuarial gains and losses are recognised as they occur in the Statement of Recognised Income and Expense.

The total contributions to the defined benefits plan in the period ending 31 March 2010 are expected to be £18.0m for the group.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

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

	2009 £m
Movement in liabilities during the period:	
Liabilities on acquisition	(763.3)
Movement in the period	
- plan participants' contributions	(2.0)
- current service cost	(14.7)
- interest cost	(46.2)
- past service cost	(1.9)
- benefits paid	28.1
- actuarial gain	5.9
- changes in assumptions	125.9
Movement in unremitted contributions at the period end	(0.3)
<b>Pension liabilities at period end</b>	<b>(668.5)</b>
Movement in assets during the period:	
Assets on acquisition	790.6
Movement in period	
- plan participants' contributions	2.0
- employer contributions	19.4
- other finance income	50.6
- actuarial loss	(200.0)
- benefits paid	(28.1)
<b>Pension assets at period end</b>	<b>634.5</b>

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

### (vi) History of experience gains and losses

	2009 £m
Fair value of scheme assets	634.5
Present value of defined benefit obligation	(668.5)
Deficit in the scheme	<b>(34.0)</b>
Experience gains and losses on scheme liabilities	5.9
Experience gains and losses on scheme assets	(200.0)

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

### (vii) Defined contribution scheme

The company ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007. The total charged to the income statement for the defined contribution schemes for the period ended 31 March 2009 was £0.4m.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 21. Authorised and issued share capital

	Ordinary shares of £1	
	Number	£1 shares £
<b>Authorised</b>		
On incorporation and at 31 March 2009	750,000,000	750,000,000
<b>Allotted, called up and fully paid</b>		
On incorporation and at 31 March 2009	750,000,000	750,000,000

#### Employee Share Ownership Trust

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

Previously, shares were held in an ESOT, funded by interest free loans from the group, which held shares to meet these schemes. At 31 March 2009, 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 2009

	Date of grant	Number of shares	Option price	Normal exercise date
<b>Sharesave schemes</b>				
Three year schemes	30-Dec-05	<b>58,084</b>	588.0p	Mar-Aug 2009
	28-Dec-06	<b>118,164</b>	741.0p	Mar-Aug 2010
Five year schemes	09-Jan-04	<b>45,711</b>	366.0p	Mar-Aug 2009
	07-Jan-05	<b>162,680</b>	461.0p	Mar-Aug 2010
	30-Dec-05	<b>150,077</b>	588.0p	Mar-Aug 2011
	28-Dec-06	<b>97,781</b>	741.0p	Mar-Aug 2012

**Notes to the financial statements (continued)**  
for the 71 week period ended 31 March 2009

**22. Group statement of movements in equity**

	Issued capital £m	Investment in own shares £m	Revaluation reserve £m	Hedging reserve £m	Share- based payment reserve £m	Retained earnings £m	Total £m
On incorporation	750.0	-	-	-	-	-	750.0
On acquisition of subsidiary	-	(0.6)	-	1.0	4.1	-	4.5
Loss for the period	-	-	-	-	-	(430.0)	(430.0)
Dividends approved and paid	-	-	-	-	-	(5.0)	(5.0)
Treasury shares disposed of through vesting of share schemes	-	0.6	-	-	-	-	0.6
Share based payment charge	-	-	-	-	0.7	-	0.7
Revaluation surplus	-	-	52.8	-	-	-	52.8
Other movements	-	-	-	-	-	(0.9)	(0.9)
Total included in the group statement of recognised income and expenditure	-	-	-	(18.6)	-	(48.4)	(67.0)
<b>At 31 March 2009</b>	<b>750.0</b>	<b>-</b>	<b>52.8</b>	<b>(17.6)</b>	<b>4.8</b>	<b>(484.3)</b>	<b>305.7</b>

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

### **23. Financial instruments**

Treasury policy is described in the financial review on page 9. The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Net debt and financial liabilities comprise the following:

	<b>2009 Less than one year £m</b>	<b>2009 More than one year £m</b>	<b>2009 Total £m</b>
<b>Financial liabilities:</b>			
Finance lease swaps	(0.5)	(25.0)	<b>(25.5)</b>
Index linked swaps	-	(433.5)	<b>(433.5)</b>
	<b>(0.5)</b>	<b>(458.5)</b>	<b>(459.0)</b>
<b>Net debt:</b>			
Cash and short term deposits	140.2	-	<b>140.2</b>
Borrowings	(31.6)	(4,957.2)	<b>(4,988.8)</b>
	<b>108.6</b>	<b>(4,957.2)</b>	<b>(4,848.6)</b>

**Notes to the financial statements (continued)**  
for the 71 week period ended 31 March 2009

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

The interest rate risk profile of the group's financial assets and liabilities at 31 March is below. This includes interest payable or receivable in the period as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at 2.5% and 0% respectively.

**Period ended 31 March 2009**

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>Financial liabilities and borrowings</b>							
<b>Fixed rate</b>							
Bank loans	63.1	63.8	524.2	53.8	44.8	219.9	969.6
6.625% guaranteed bonds 2031	15.9	15.9	15.9	15.9	15.9	510.3	589.8
6.875% guaranteed bonds 2010	13.8	213.8	-	-	-	-	227.6
5.375% guaranteed bonds 2023	10.8	10.8	10.8	10.8	10.8	296.8	350.8
5.5% guaranteed bonds 2027	8.3	8.3	8.3	8.3	8.3	257.3	298.8
5.125% guaranteed bonds 2037	10.3	10.3	10.3	10.3	10.3	435.8	487.3
Other loans	0.5	0.5	0.5	0.5	0.5	20.1	22.6
Finance lease swaps	-	-	-	-	-	-	-
	<b>122.7</b>	<b>323.4</b>	<b>570.0</b>	<b>99.6</b>	<b>90.6</b>	<b>1,740.2</b>	<b>2,946.5</b>
<b>Floating rate</b>							
3.048% index linked guaranteed bond 2033	3.0	3.0	3.0	3.0	3.0	157.9	172.9
1.462% index linked guaranteed bond 2051	1.8	1.8	1.8	1.8	1.8	192.6	201.6
1.46% index linked guaranteed bond 2056	1.8	1.8	1.8	1.8	1.8	201.7	210.7
1.8225% index linked guaranteed bonds 2050	1.2	1.2	1.2	1.2	1.2	107.6	113.6
1.75756% index linked guaranteed bonds 2054	1.5	1.5	1.5	1.5	1.5	144.8	152.3
1.7085% index linked guaranteed bonds 2058	1.7	1.7	1.7	1.7	1.7	175.2	183.7
Bank loans under Senior Holdco facility	47.1	47.1	1,094.1	-	-	-	1,188.3
Loan notes issued by Saltaire Water Limited	1.2	1.2	1.2	1.2	1.2	63.5	69.5
Loan notes issued by Kelda PIK Co Limited	37.5	37.5	478.8	-	-	-	553.8
Eurobonds issued by Kelda Eurobond Co Limited	44.7	44.7	44.7	44.7	44.7	705.0	928.5
Index linked swaps	(17.0)	(17.0)	(17.0)	(17.0)	(17.0)	(562.0)	(647.0)
Other loans	0.6	-	-	-	-	-	0.6
Finance leases	15.9	16.0	16.2	16.3	25.8	362.4	452.6
	<b>141.0</b>	<b>140.5</b>	<b>1,629.0</b>	<b>56.2</b>	<b>65.7</b>	<b>1,548.7</b>	<b>3,581.1</b>
<b>Financial assets</b>							
<b>Floating rate</b>							
Cash and short term deposits	(140.2)	-	-	-	-	-	(140.2)
Loans to associates/joint ventures	(24.4)	-	-	-	-	-	(24.4)
	<b>(164.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(164.6)</b>

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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### **(b) Financial risks**

#### **Capital risk management**

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

When monitoring capital risk, the group considers its gearing and the ratio of net debt to 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 debtors on the period end balance sheet. These can be split into main charges debtors and other trade debtors.

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

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

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

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

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

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### (c) Fair values of financial assets and financial liabilities

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

	2009 Book value £m	2009 Fair value £m
<b>Primary financial instruments financing the group's operations</b>		
<b>Financial assets</b>		
Cash and short term deposits	(140.2)	(140.2)
Loans to associates/joint ventures	(24.4)	(24.4)
<b>Financial liabilities</b>		
Fixed rate interest rate swaps in respect of finance leases	25.5	25.5
Interest rate swaps in respect of borrowings	433.5	433.5
Fixed rate bank loans	802.2	800.9
Fixed rate sterling bonds	954.6	920.5
Index Linked sterling bonds	522.3	410.1
Bank loans under Senior Holdco facility	1,037.4	1,037.4
Loan notes issued by Kelda PIK Co Limited	441.3	441.3
Eurobonds issued by Kelda Eurobond Co Limited	526.1	526.1
Finance leases	395.6	395.6
Other loans	20.2	20.2

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

### (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 to be fixed or index linked. At the financial period end the proportions were 128% and 96% respectively.

#### **Hedging of floating rate interest due on borrowings**

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

In order to manage its exposure to movements in LIBOR, the group has entered into a number of floating rate to index linked swaps.

The swaps total £1,300m and have an average life of 38 years.

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

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

The fair value of the hedging instrument at 31 March 2009 was a loss of £433.5m. This has been recognised in the income statement as an exceptional item.

### **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 34 years. In most cases interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. 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. £70m of leases are reset semi-annually based on 6 month LIBOR.

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

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

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

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

## **24. 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.

	Options	Weighted average exercise price (£)
Outstanding at the beginning of the period	1,740,058	5.76
Lapsed during the period	(253,446)	6.16
Exercised during the period	(854,115)	4.82
Outstanding at the end of the period	<b>632,497</b>	<b>6.86</b>
Of which exercisable at the end of the period	<b>103,795</b>	<b>4.90</b>

The weighted average share price at the date of exercise for share options exercised during the period was £10.90.

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

The weighted average of the fair value of the share options was £5.71.

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

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. There were no shares granted in 2009. The inputs into the Black Scholes model for 2007 were as follows:

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

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

### 25. Additional cash flow information

Analysis of movement in net debt

	On incorporation £m	On acquisition of subsidiary £m	Cash movements £m	At 31 March 2009 £m
Cash and cash equivalents	-	-	140.2	<b>140.2</b>
	-	-	140.2	<b>140.2</b>
Debt due within one year	-	-	(25.6)	<b>(25.6)</b>
Finance leases due within one year	-	(5.8)	(0.2)	<b>(6.0)</b>
	-	(5.8)	(25.8)	<b>(31.6)</b>
Debt due after one year	-	(1,998.9)	(2,568.7)	<b>(4,567.6)</b>
Finance leases due after one year	-	(395.5)	5.9	<b>(389.6)</b>
	-	(2,394.4)	(2,562.8)	<b>(4,957.2)</b>
<b>Net debt relating to continuing activities</b>	-	<b>(2,400.2)</b>	<b>(2,448.4)</b>	<b>(4,848.6)</b>
<b>Total net debt</b>	-	<b>(2,400.2)</b>	<b>(2,448.4)</b>	<b>(4,848.6)</b>

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

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

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

	2009 £m
Loss from continuing operations before taxation	(377.5)
Share of associates' and joint ventures' profit after tax	2.4
Investment income	(133.2)
Finance costs	446.9
Exceptional finance costs (non-cash)	433.5
Depreciation	235.7
Decrease in inventories	2.4
Decrease in trade and other receivables	29.4
Increase in trade and other payables	43.1
Pension contributions in excess of operating costs	(4.3)
Movements in provisions	0.7
Other movements	(0.4)
<b>Cash generated by continuing operations</b>	<b>678.7</b>

### 26. Commitments

	2009 £m
<b>Contracts placed at 31 March</b>	<b>222.4</b>

The long term investment programme for the UK regulated water services business, which identified substantial future capital expenditure commitments in the period 1 April 2005 to 31 March 2010, was agreed as part of the Periodic Review process finalised in December 2004.

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:

	2009 Land and buildings £m	2009 Other £m
Within one year	0.4	3.0
Between two and five years	0.6	1.9
	<b>1.0</b>	<b>4.9</b>

## Notes to the financial statements (continued)

for the 71 week period ended 31 March 2009

### 27. 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 2009 £m	Debtors balance with related parties 2009 £m	Loans to/(from) related parties 2009 £m
<b>Joint ventures</b>			
Aberdeen Environmental Services (Holdings) Limited	6.6	0.6	0.6
Brey Utilities Limited	-	-	13.7
Brey Services Limited	6.2	6.6	-
Dalriada Water Ltd	0.5	0.3	7.7
<b>Associates</b>			
KeyLandmark Limited	-	-	(0.5)
Mickelfield	-	-	0.1
Whitehall Landing Limited	-	-	(0.3)
Whinmoor Limited	-	-	0.2
Templegate	-	-	0.1
KeyLand Gregory Limited	-	-	1.6
KeyLand Gregory (Retail) Limited	-	-	1.1
Aire Valley	-	-	0.1
	<b>13.3</b>	<b>7.5</b>	<b>24.4</b>

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

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

As at 31 March 2009 Kelda Water Services Ltd, a wholly owned subsidiary of the group, has a 50% interest in Brey Services Ltd; a 50% interest in Dalriada Water Services Ltd (DWS); and a 45% interest in Aberdeen Environmental Services Ltd (AES). Subsequently the interest in DWS and AES have increased to 100% and 50% respectively.

## **Notes to the financial statements (continued)**

for the 71 week period ended 31 March 2009

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### Compensation of key management personnel (including directors)

	<b>2009</b>
	<b>£m</b>
Short-term benefits	2.8
Post-employment benefits	0.4
Termination payments	-
Share-based payments	0.1
	<b>3.3</b>

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### **28. Ultimate controlling party**

The company's immediate and ultimate parent company and controlling party is Kelda Holdings Limited (formerly Skeldergate Topco Limited), a company registered in Jersey.

## Group companies

as at 31 March 2009

Principal subsidiary companies	Country of incorporation	Class of shares in issue	Proportion of class of share held
<b>Water services</b>			
Yorkshire Water Services Limited	England & Wales	Ordinary	100%
Delta Water Services Limited	England & Wales	Ordinary	100%
Grampian Wastewater Services Limited	Scotland	Ordinary	100%
Kelda Water Services Limited	England & Wales	Ordinary	100%
Kelda Water Services (Wales) Limited	England & Wales	Ordinary	100%
<b>Other activities</b>			
KeyLand Developments Limited	England & Wales	Ordinary	100%
KeyLand Investment Properties Limited	England & Wales	Ordinary	100%
Loop Customer Management Limited	England & Wales	Ordinary	100%
<b>Holding and finance companies</b>			
Kelda Group Limited	England & Wales	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	Ordinary	100%
<b>Principal associated undertakings and joint ventures</b>			
Aberdeen Environmental Services (Holdings) Limited	Scotland	Ordinary 'A'	Nil
	Scotland	Ordinary 'B'	100%
	Scotland	Ordinary 'C'	Nil
Brey Utilities Limited	England & Wales	Ordinary 'A'	100%
	England & Wales	Ordinary 'B'	Nil
	England & Wales	Ordinary 'C'	Nil
Brey Services Limited	England & Wales	Ordinary 'A'	100%
	England & Wales	Ordinary 'B'	Nil
	England & Wales	Ordinary 'C'	Nil
Dalriada Water Services Limited	Northern Ireland	Ordinary 'A'	Nil
	Northern Ireland	Ordinary 'B'	100%

# Company balance sheet

as at 31 March 2009

	Notes	2009 £m
<b>Fixed assets</b>		
Investments	3	1,469.8
<b>Current assets</b>		
Debtors	4	2.3
		2.3
<b>Creditors: amounts falling due within one year</b>		
Other creditors	5	(237.5)
<b>Net current liabilities</b>		<b>(235.2)</b>
<b>Total assets less current liabilities</b>		<b>1,234.6</b>
<b>Creditors: amounts falling due after more than one year</b>		
Long term borrowings		(526.1)
<b>Net assets</b>		<b>708.5</b>
<b>Capital and reserves</b>		
Called up share capital		750.0
Profit and loss account – deficit	6	(41.5)
<b>Equity shareholders' funds</b>		<b>708.5</b>

Approved by the board of directors on 28 July 2009 and signed on their behalf by:



Allison Bainbridge  
Director of Finance

# Notes to the company financial statements

For the 71 week period ended 31 March 2009

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## 1. Company accounting policies

### Basis of accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention, modified to include revaluation of all financial instruments as described below, 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 accounts, with the Companies Act 1985.

The going concern basis has been applied in these accounts.

### Taxation

#### Current tax

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

#### Deferred tax

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

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

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

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

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

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

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

# **Notes to the company financial statements**

*For the 71 week period ended 31 March 2009*

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

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

## **Investments in subsidiaries**

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

## **Financial instruments**

### **Trade debtors and creditors**

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

### **Interest bearing loans and borrowings**

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

### **Derivative financial instruments**

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

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

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

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

When the hedged highly 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

# Notes to the company financial statements (continued)

For the 71 week period ended 31 March 2009

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

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

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

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

## Pensions

The company's employees participate in a number of group defined benefit schemes as described in note 20 in the consolidated financial statements. The company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. Details of the defined benefit schemes of the group (accounted for in accordance with group's accounting policies) can be found in note 20 of the consolidated financial statements.

## Dividends receivable

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

## Dividends payable

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

## 2. Loss attributable to the parent company

The loss of the parent company was £41.5m. Advantage has been taken of the exemption available under Companies' Act 1985 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 28 July 2009.

## 3. Investments

	Shares in group undertakings £m	Loans to group undertakings £m	Total investments in group undertakings £m
<b>Cost</b>			
On incorporation	-	-	-
On acquisition of subsidiaries	950.0	519.8	1,469.8
<b>At 31 March 2009</b>	<b>950.0</b>	<b>519.8</b>	<b>1,469.8</b>

A list of the major subsidiaries of the company can be found on page 71.

## Notes to the company financial statements (continued)

For the 71 week period ended 31 March 2009

### 4. Debtors

	2009 £m
Amounts owed by subsidiary undertakings	2.3
	<b>2.3</b>

### 5. Other creditors

	2009 £m
<b>Amounts falling due within one year:</b>	
Amounts owed to subsidiary undertakings	231.0
Other creditors	6.5
	<b>237.5</b>

### 6. Movements on reserves

	Profit and loss account £m
Loss for the period	41.5
<b>Closing shareholders' deficit at 31 March 2009</b>	<b>41.5</b>

### 7. Reconciliation of movement in shareholders' funds

	2009 £m
On incorporation	-
Loss attributable to shareholders	(41.5)
<b>Shareholders' deficit at 31 March 2009</b>	<b>(41.5)</b>

## **Notes to the company financial statements (continued)**

*For the 71 week period ended 31 March 2009*

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### **8. Other information**

The company had no employees at 31 March 2009.

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

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

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

### **9. Cash flow**

### **10. Ultimate controlling party**

The company's immediate and ultimate parent company and controlling party is Kelda Holdings Limited (formerly Skeldergate Topco Limited), a company registered in Jersey.

## **Statement of directors' responsibility for the company**

*For the 71 week period ended 31 March 2009*

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The directors are responsible for preparing the 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# ***Independent Auditors' Report to the members of Kelda Eurobond Co Limited for the company accounts***

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We have audited the financial statements of Kelda Eurobond Co Limited for the 71 weeks ended 31 March 2009 which comprise the company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Kelda Eurobond Co Limited for the 71 weeks ended 31 March 2009.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 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.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Report, and consider whether it is consistent with the audited parent company financial statements. This other information comprises only the Directors' Report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

# **Independent Auditors' Report to the members of Kelda Eurobond Co Limited for the company accounts**

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## **Opinion**

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Leeds

July 2009