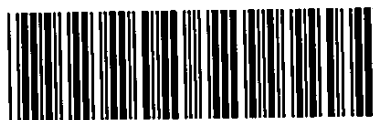


# **Kelda Water Services (Defence) Limited**

## **Directors' Report and Financial Statements**

31 March 2012

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COMPANIES HOUSE

## **Kelda Water Services (Defence) Limited**

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Registered No 4617059

### **Directors**

G M Cawthra

R B Marrill

P D Wynn (resigned 30 April 2012)

G Dixon (appointed 30 April 2012)

### **Secretary**

R C Hill

### **Independent auditors**

Pricewaterhouse Coopers LLP

Benson House

33 Wellington Street

Leeds

LS1 4JP

### **Registered Office**

2<sup>nd</sup> Floor

One Capitol Park

Dodworth

Barnsley

S75 3TZ

### **Bankers**

Nat West

Leeds City Office

8 Park Row

Leeds

LS1 5HD

## Directors' report

Registered No 4617059

The directors present their report and the audited financial statements for the year ended 31 March 2012

### **Review of business and future developments**

#### ***Results and dividends***

The loss for the year after taxation amounts to £2,204,000 (2011 loss of £710,000)

The directors do not recommend the payment of a dividend (2011 £nil)

#### ***Principal activity and review of business***

The company operates a contract with Kelda Water Services (Estates) Limited for water and waste water services covering the areas of Wales and the South West of England for a 25 year period

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

Health and safety of employees and contractors is of the highest importance to the company, with regular reporting and review of safety statistics and practices at board level

Operating result Profit or loss before interest and tax (PBIT/LBIT) indicates the company's operating performance from a financial perspective. The loss of £2,588,000 (2011 £1,011,000) before interest and tax shown in the profit and loss account was inline with expectations. Areas of efficiency are being looked at to enable the financial performance of the company to be improved without adversely impacting on service to the customer. The company operates a contract with Kelda Water Services (Estates) Limited, the result of the combined companies showed a profit after tax for the year ended 31 March 2012

#### ***Principal risks and uncertainties facing the company***

Strategic, financial, commercial, operational, social, environmental and ethical risks are all considered as part of the company's controls, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore they can only provide reasonable, not absolute, assurance against material misstatement or loss

At present there are no immediate risks considered likely to have a significant impact on the short or long term value of the company

#### ***Going Concern***

Kelda Water Services (Defence) Limited is a going concern. The parent companies of Kelda Water Services (Defence) Limited, Kelda Group Limited have signed a Performance Guarantee dated 21 October 2009 under which they, as guarantors, have agreed to guarantee the obligations of Kelda Water Services (Defence) Limited for up to £30m

#### ***Financial risk management***

The business' principal financial instruments comprise bank balances, trade debtors and trade creditors. The main purpose of these instruments is to finance the business' operations

In respect of bank balances, the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the operation of cash management and forecasting

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits. The amounts presented in the balance sheet are net of allowances for doubtful debtors

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due

#### ***Future developments***

The company is well placed to achieve its vision of delivering a forward-looking financially sustainable partnership and will continue to work together with Kelda Water Services (Estates) Limited, parent company Kelda Water Services and supply chain in order to exchange learning and best practice

Employee development and extracting efficiencies from the supply chain are central to future plans

## Directors' report

### Directors

The directors who served throughout the year and up to the date of signing these financial statements were those listed on page 1

### Independent auditors

In the absence of any notice to terminate their appointment, PricewaterhouseCoopers LLP will be deemed to be appointed for the next financial year. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

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

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

By order of the board



R C Hill

Company Secretary

29 August

2012

## Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditors' report**

**to the members of Kelda Water Services (Defence) Limited**

We have audited the financial statements of Kelda Water Services (Defence) Limited for the year ended 31 March 2012 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

As explained more fully in the Statement of Director's Responsibilities set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

## Independent auditors' report

to the members of Kelda Water Services (Defence) Limited (continued)

### Matters on which we are required to report by exception

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

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



Richard Bunter (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

29 August 2012

## Profit and loss account

for the year ended 31 March 2012

|  | Notes | 2012<br>£000 | 2011<br>£000 |
|--|-------|--------------|--------------|
| <b>Turnover</b>                                    | 2     | 30,548       | 29,287       |
| <b>Expenditure</b>                                 |       |              |              |
| Net operating costs                                |       | (33,136)     | (30,298)     |
| <b>Operating loss</b>                              | 3     | (2,588)      | (1,011)      |
| Interest receivable and similar income             | 7     | 18           | 19           |
| <b>Loss on ordinary activities before taxation</b> |       | (2,570)      | (992)        |
| Tax on loss on ordinary activities                 | 8     | 512          | 282          |
| <b>Loss for the financial year</b>                 | 15    | (2,058)      | (710)        |

All activities are from continuing operations in the United Kingdom

There are no recognised gains and losses other than the loss of the company of £2,058,000 in the year ended 31 March 2012 (2011 loss of £710,000), and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the loss for the year stated above and its historical cost equivalent



## Balance sheet

At 31 March 2012

|  | Notes | 2012<br>£000   | 2011<br>£000  |
|--|-------|----------------|---------------|
| <b>Fixed assets</b>                                    |       |                |               |
| Tangible assets  | 9     | 121            | 188           |
|  |       | <u>121</u>     | <u>188</u>    |
| <b>Current assets</b>                                  |       |                |               |
| Stocks   | 10    | 181            | 186           |
| Debtors  | 11    | 13,633         | 21,934        |
| Cash at bank and in hand                               |       | 171            | 20            |
|  |       | <u>13,985</u>  | <u>22,140</u> |
| <b>Creditors : amounts falling due within one year</b> | 12    | (16,266)       | (22,430)      |
| <b>Net current liabilities</b>                         |       | <u>(2,281)</u> | <u>(290)</u>  |
| <b>Net liabilities</b>                                 |       | <u>(2,160)</u> | <u>(102)</u>  |
| <b>Capital and reserves</b>                            |       |                |               |
| Called up share capital                                | 15    | 1              | 1             |
| Other reserves   | 15    | 45             | 45            |
| Profit and loss account                                | 15    | (2,206)        | (148)         |
| <b>Total Shareholders' Funds</b>                       | 15    | <u>(2,160)</u> | <u>(102)</u>  |

The financial statements on pages 7 to 17 were approved by the board and signed on its behalf by



G M Cawthra  
Director

29 August  
2012

Registered Number 4617059

## Notes to the financial statements

at 31 March 2012

### 1. Accounting policies

#### **Basis of accounting**

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with all applicable United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006

The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the company's circumstances, have been consistently applied and are supported by reasonable and prudent estimates and judgements

The financial statements do not include a cashflow statement because the cashflows of the company are consolidated in the cashflow statement of the holding company in accordance with FRS 1

#### **Revenue recognition**

Revenue is recognised net of value added tax and represents the value of goods and services supplied to contract Kelda Water Services (Estates) Limited for the provision of water and waste water services in the area covering Wales and the South West of England

#### **Leased assets**

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

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

#### **Fixed assets**

All fixed assets are initially recorded at cost

#### **Depreciation**

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of the assets on a straight line basis over their estimated useful lives, or the period of the contract if shorter, and commences when the assets have been commissioned

|                  |   |                    |
|------------------|---|--------------------|
| Computer systems | - | over 3 to 15 years |
|------------------|---|--------------------|

|                |   |              |
|----------------|---|--------------|
| Motor vehicles | - | over 3 years |
|----------------|---|--------------|

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

#### **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

#### **Profit and revenue recognition on long term contracts**

Profit on long-term contracts is taken as the work is carried out, if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the period end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion to total contract value which costs incurred to date bear to total expected costs for the contract

## Notes to the financial statements

at 31 March 2012

### 2. Turnover

Turnover, which is stated net of value added tax, represents the value of goods and services supplied to third parties. Turnover is attributable to one continuing activity, the contract between Kelda Water Services (Defence) Limited and Kelda Water Services (Estates) Limited for the provision of water and waste water services in the area covering Wales and the South West of England.

### 3. Operating loss

This is stated after charging

|  | 2012<br>£000 | 2011<br>£000 |
|--|--------------|--------------|
| Auditors' remuneration - audit of the financial statements | 7            | 7            |
| Depreciation   | 66           | 77           |

### 4. Pensions

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

Contributions during the year ended 31 March 2012 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The company contributed at 23.6% of members' contributions during the accounting year in respect of the majority of members. The Kelda Group paid lump sum deficit contributions of £1,000,000 in the year to 31 March 2012.

The most recent formalised actuarial valuation of the KGPP was carried out as at 31 March 2010 when the market value of assets was £838.2m.

The company participates in the group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other subsidiary companies of Kelda Holdings Limited. The company is unable to identify its share of the underlying assets and liabilities of the KGPP as the scheme's members are not utilised by company. The company therefore accounts for pension costs on a contribution basis.

The company's total pension charge for the year was £364,716, (2011: £281,154). At 31 March 2012, the company had outstanding contributions of £20,237, (2011: £19,880).

A summary of scheme position as disclosed in the Kelda Holdco Limited accounts as at 31 March 2012 is as follows:

|                                     | 2012               |   | 2011               |   |
|-------------------------------------|--------------------|---|--------------------|---|
|                                     | Market value<br>£m | Expected long term<br>rate of return<br>% | Market value<br>£m | Expected long term rate<br>of return<br>% |
| Fair value of scheme assets         |                    |   |                    |   |
| Equities                            | 539.2              | 6.2                                       | 541.7              | 7.2                                       |
| Bonds                               | 279.6              | 4.2                                       | 251.0              | 4.9                                       |
| Property                            | 78.7               | 6.2                                       | 76.9               | 7.2                                       |
| Other                               | 6.5                | 3.5                                       | 5.3                | 4.4                                       |
| Total value of assets               | 904.0              |   | 874.9              |   |
| Present value of scheme liabilities | (1003.7)           |   | (914.9)            |   |
| Net pension liability               | (99.7)             |   | (40.0)             |   |

## Notes to the financial statements

at 31 March 2012

### 4. Pension arrangements (continued)

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 and use the following assumptions

|   | 2012 | 2011 |
|---|------|------|
| Inflation   | 3.3% | 3.4% |
| Rate of increase in salaries                                    | 4.3% | 4.4% |
| Rate of increase to pensions in payment and deferred pensions   | 3.3% | 3.4% |
| Discount rate for scheme liabilities                            | 5.1% | 5.5% |
| Life expectancy of male pensioner aged 60 (in years)            | 26.6 | 26.4 |
| Projected life expectancy at age 60 for male aged 40 (in years) | 28.7 | 28.4 |

### 5. Directors' emoluments

|  | 2012           | 2011           |
|--|----------------|----------------|
|  | £              | £              |
| Aggregate emoluments                                     | 116,986        | 120,119        |
| Employer contributions to money purchase pension schemes | 11,269         | 10,940         |
|  | <u>128,255</u> | <u>131,059</u> |

## Notes to the financial statements

at 31 March 2012

### 6. Staff costs

The monthly average number of persons employed by the company during the period was

|                | 2012<br>No | 2011<br>No |
|----------------|------------|------------|
| Activity       |            |            |
| Technical      | 70         | 71         |
| Administration | 30         | 26         |
|                | <u>100</u> | <u>97</u>  |

|                       | £000         | £000         |
|-----------------------|--------------|--------------|
| Staff costs           |              |              |
| Wages and salaries    | 1,725        | 1,876        |
| Social security costs | 352          | 328          |
| Pension costs         | 365          | 281          |
|                       | <u>2,442</u> | <u>2,485</u> |

### 7. Interest receivable and similar income

|                          | 2012<br>£000 | 2011<br>£000 |
|--------------------------|--------------|--------------|
| Bank interest receivable | <u>18</u>    | <u>19</u>    |

## Notes to the financial statements

at 31 March 2012

### 8. Tax on loss on ordinary activities

#### (a) Tax on loss on ordinary activities

The tax charge is made up as follows

|  | 2012<br>£000 | 2011<br>£000 |
|--|--------------|--------------|
| <i>Current tax</i>                             |              |              |
| UK corporation tax on profits of the period    | (581)        | (103)        |
| Group relief recoverable                       | -            | -            |
| Adjustment in respect of prior periods         | -            | (3)          |
| Total current tax                              | (581)        | (106)        |
| <i>Deferred tax</i>                            |              |              |
| Origination and reversal of timing differences | (98)         | (174)        |
| Adjustment in respect of previous periods      | 159          | (16)         |
| Effect of changes in tax rates                 | 9            | 14           |
| Total Deferred Tax                             | 70           | (176)        |
| Tax on profit on ordinary activities           | (512)        | (282)        |

#### (b) Factors affecting current tax credit

The tax assessed on the loss on ordinary activities for the period is different from the standard rate of corporation tax of 26% (2011 28%) The differences are reconciled below

|  | 2012<br>£000 | 2011<br>£000 |
|--|--------------|--------------|
| Loss on ordinary activities before taxation  | (2,570)      | (992)        |
| Loss on ordinary activities multiplied by standard rate of corporation taxation of 26 % (2011 28%) | (668)        | (278)        |
| Depreciation in excess of capital allowances   | 4            | 5            |
| Income not taxable   | (11)         | -            |
| Adjustments in respect of previous periods   | -            | (3)          |
| Unrelieved tax losses carried forward  | -            | -            |
| Movement in short term timing differences  | 94           | 170          |
| Current tax credit   | (581)        | (106)        |

#### (c) Factors affecting current tax

The standard rate of Corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the Company's profits for this accounting period are taxed at 26%. It was announced in the March 2012 UK Budget Statement that the standard UK Corporation Tax rate, which was due to reduce from 26% to 25% from 1 April 2012, will instead reduce to 24%. This was substantively enacted on 26 March 2012. Further reductions to the main rate were proposed to reduce the rate by 1% per annum to 22% by 1 April 2014 with a change to 23% being substantively enacted on 4 July 2012. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements. The deferred tax balances in the financial statements have been calculated using a rate of 24% as this was the rate enacted in law at the balance sheet date for the period in which the deferred tax balance is forecast to be utilised. These changes are not anticipated to have a material impact on the Company's financial statements in future periods.

## Notes to the financial statements

at 31 March 2012

### 9. Tangible assets

|                          | <i>Computer<br/>Systems<br/>£000</i> | <i>Motor<br/>Vehicles<br/>£000</i> | <i>Total<br/>£000</i> |
|--------------------------|--------------------------------------|------------------------------------|-----------------------|
| <i>Cost</i>              |                                      |                                    |                       |
| At 1 April 2011          | 119                                  | 388                                | 507                   |
| Additions                | -                                    | -                                  | -                     |
| Disposals                | -                                    | (28)                               | (28)                  |
| At 31 March 2012         | 119                                  | 360                                | 479                   |
| <i>Depreciation</i>      |                                      |                                    |                       |
| At 1 April 2011          | 82                                   | 237                                | 319                   |
| Provided during the year | 13                                   | 53                                 | 66                    |
| Disposals                | -                                    | (27)                               | (27)                  |
| At 31 March 2012         | 95                                   | 263                                | 358                   |
| <i>Net Book Value</i>    |                                      |                                    |                       |
| At 31 March 2012         | 24                                   | 97                                 | 121                   |
| At 31 March 2011         | 37                                   | 151                                | 188                   |

### 10. Stocks

|                               | <i>2012<br/>£000</i> | <i>2011<br/>£000</i> |
|-------------------------------|----------------------|----------------------|
| Stock – Goods held for resale | 181                  | 186                  |

There is no material difference between the replacement cost of stocks and the value in the accounts

### 11. Debtors

|                                    | <i>2012<br/>£000</i> | <i>2011<br/>£000</i> |
|------------------------------------|----------------------|----------------------|
| Trade debtors                      | 9,679                | 17,513               |
| Other debtors                      | 2                    | 3                    |
| Amounts owed by group undertakings | 2,124                | 2,833                |
| Prepayments and accrued income     | 1,138                | 1,303                |
| Corporation Tax                    | 583                  | 106                  |
| Deferred Tax                       | 107                  | 176                  |
|                                    | 13,633               | 21,934               |

## Notes to the financial statements

at 31 March 2012

### 12. Creditors: amounts falling due within one year

|  | 2012<br>£000  | 2011<br>£000  |
|--|---------------|---------------|
| Trade creditors  | 857           | 1,072         |
| Payments received on account in respect of long term contracts | 3,708         | 4,889         |
| Other creditors  | 7,925         | 15,761        |
| Accruals   | 3,137         | -             |
| Intercompany creditors   | 86            | 278           |
| Other taxes and social security                                | 553           | 430           |
| Corporation tax  | -             | -             |
|  | <u>16,266</u> | <u>22,430</u> |

### 13. Deferred tax asset

|   | £          |
|---|------------|
| At 1 April 2011                                   | 176        |
| Charge to the profit and loss account (note 8(a)) | 89         |
| Adjustment in respect of prior years (note 8(a))  | (159)      |
| At 31 March 2012                                  | <u>106</u> |

|                                       | £            |
|---------------------------------------|--------------|
| Deferred tax is recognised as follows |              |
| Accelerated capital allowances        | (15)         |
| STTDs                                 | (92)         |
|                                       | <u>(106)</u> |

### 14. Called up share capital

| <i>Authorised, called up and fully paid up</i> | 2012<br>No   | 2012<br>£    | 2011<br>No   | 2011<br>£    |
|--|--------------|--------------|--------------|--------------|
| Ordinary class A shares of £1                  | 500          | 500          | 500          | 500          |
| Ordinary class B shares of £1                  | 500          | 500          | 500          | 500          |
|  | <u>1,000</u> | <u>1,000</u> | <u>1,000</u> | <u>1,000</u> |

The 'A' and 'B' ordinary shares rank *pari passu*, but they each constitute a separate class of shares



## Notes to the financial statements

at 31 March 2012

### 15. Reconciliation of shareholders' funds and movement on reserves

|                             | <i>Called up<br/>Share<br/>Capital<br/>£000</i> | <i>Share based<br/>Payment<br/>Reserve<br/>£000</i> | <i>Profit<br/>and loss<br/>account<br/>£000</i> | <i>Total share-<br/>holders'<br/>funds<br/>£000</i> |
|-----------------------------|---|---|---|---|
| At 31 March 2011            | 1   | 45  | (148)   | (102)   |
| Loss for the financial year | -   | -   | (2,058)   | (2,058)   |
| At 31 March 2012            | 1   | 45  | (2,206)   | (2,160)   |

### 16. Share options

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

In 2008, the scheme was closed following the acquisition of Kelda Group Limited by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity with members choosing whether to continue to contribute

|   | 2012    |   | 2011    |   |
|---|---------|---|---------|---|
|   | Options | Weighted<br>average<br>exercise<br>price<br>£ | Options | Weighted<br>average<br>exercise<br>price<br>£ |
| Outstanding at the beginning of the year    | 88      | 7 41  | 1,199   | 6 20  |
| Exercised during the year                   | (88)    | 10 90   | (109)   | 10 90   |
| Transferred (to)/from other group companies | -       | -   | (561)   | 6 67  |
| Lapsed in the year                          | -       | -   | (441)   | 7 41  |
| Outstanding at the end of the year          | -       | -   | 88      | 7 41  |
| Of which exercisable at the end of the year | -       | -   | 88      | 7 41  |

The weighted average share price at the date of exercise for share options exercised during the year was £10 90 (2011 £10 90)

There were no options outstanding at 31 March 2012

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. No shares were granted since 2007. The inputs to the Black Scholes model for 2007 were as follows

## Notes to the financial statements

at 31 March 2012

### 16. Share options (continued)

|   |               |
|---|---------------|
| 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 last 6 years of its trade |               |

### 17. Financial Commitments

#### *Operating lease commitments*

The company had annual commitments under non-cancellable operating leases expiring as follows

|                               | <i>Land &amp; Buildings</i> |             |
|-------------------------------|-----------------------------|-------------|
|                               | <i>2012</i>                 | <i>2011</i> |
|                               | <i>£</i>                    | <i>£</i>    |
| Operating leases which expire |                             |             |
| In two to five years          | 55,000                      | -           |
|                               | <u>55,000</u>               | <u>-</u>    |

### 18. Related parties

The company is exempt under the terms of FRS 8 from disclosing related party transactions within wholly owned entities that are part of Kelda Holdings Limited group

The company does not pay any consideration for services received from the directors

### 19. Ultimate Parent Undertaking

The company's immediate parent company is Kelda Water Services Limited

The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey

Kelda Holdco Limited, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate these financial statements. Kelda Eurobond Co Limited, a company registered in England and Wales, is the largest UK group to consolidate these financial statements

Copies of the group financial statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ