Kelda Eurobond Co Limited

Annual report and financial statements

Registered number 06433768

For the year ended 31 March 2018

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Strategic Report

Our Business

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

Yorkshire Water Services Limited (Yorkshire Water)
Yorkshire Water is the principal UK subsidiary of the Group, providing water and waste water services to more than five million people and 140,000 businesses. Every day, Yorkshire Water supplies around 1.3 billion litres of drinking water to homes and businesses in Yorkshire. Through the efficient operation of its extensive wastewater network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment.

Yorkshire Water results are largely presented as the 'UK Regulated Water Services' segment.

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

- We provide you with the level of customer service you expect and value
- We provide you with water that is clean and safe to drink
- We make sure that you always have enough water
- We take care of your waste water and protect you and the environment from sewer flooding
- We protect and improve the water environment
- We understand our impact on the wider environment and act responsibly
- We keep your bills as low as possible

Kelda Water Services Limited (KWS)

Following a strategic decision by the Company's parent company to seek to dispose of the non-regulated businesses owned by the Company, the sale of eight of the KWS businesses were completed in the reporting period. The respective sale completion dates were;

- Kelda Water Services (Alpha) Limited and Dalriada Water Limited, 20 November 2017;
- Kelda Organic Energy Limited and Kelda Organic Energy (Cardiff) Limited, 19 December 2017;
- Alauna Renewable Energy Limited and Kelda Organic Energy (Edinburgh) Limited, 16 January 2018; and
- Kelda Water Services (Defence) Limited and Kelda Water Service (Estates) Limited, 15 March 2018.

The remaining KWS subsidiaries continue to be actively marketed and therefore are presented as held for sale, consistent with the prior period.

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

Business strategy: Focus on the key competency of providing customer service solutions to water and similar industries.

Keyland Developments Limited (Keyland)

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

Business strategy: To add value to land with development potential and to maximise proceeds from the sale of that land.

Three Sixty Water Limited (TSW) and its subsidiaries (collectively TSWG)

TSWG specialises in services to the Non-Household Retail (NHHR) sector either by directly providing NHHR water and wastewater services or providing support services to entities which in turn NHHR water and wastewater services.

Business strategy: Achieve a withdrawal from the NHHR market, either as direct provider or as a support service provider.

As part of the Group's strategy to focus on wholesale and household retail activities the Group is working to withdraw from the NHHR market. As we are actively marketing the Three Sixty companies for sale, Three Sixty Water, its subsidiaries, and the NHHR element of Yorkshire Water Services Limited, are presented as held for sale in the Group accounts as at 31 March 2018.

Kelda Transport Management

Kelda Transport Management Limited was incorporated on 18 November 2016 and has been operational since March 2017. The principal activity of the Company is to comply with the Goods Vehicles (licencing of operators) Act 1995, to demonstrate continuous and effective management of two operating licences (Yorkshire and North-West England) for Large Goods Vehicles (LGV) allowing Yorkshire Water Services Limited ("YWS") to operate LGV whilst promoting operating efficiencies.

As per the requirement of the company's operating licence, all legal and statutory documentation have transferred from YWS. The Company can demonstrate independence of YWS. Three appointed transport managers are in place with two appointed board directors supported by a company secretary.

Business Strategy

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

Our strategic objectives take the form of seven Customer Outcomes, as follows:

- We provide you with the level of customer service you expect and value
- We provide you with water that is clean and safe to drink
- We make sure that you always have enough water
- We take care of your waste water and protect you and the environment from sewer flooding
- We protect and improve the water environment
- We understand our impact on the wider environment and act responsibly
- We keep your bills as low as possible

The above Customer Outcomes apply to all businesses within the group.

Yorkshire Water Services Limited is principal subsidiary of the group's operation. Over the following pages we provide an overview of our performance by examining progress towards each of our Customer Outcomes, alongside other important measures.

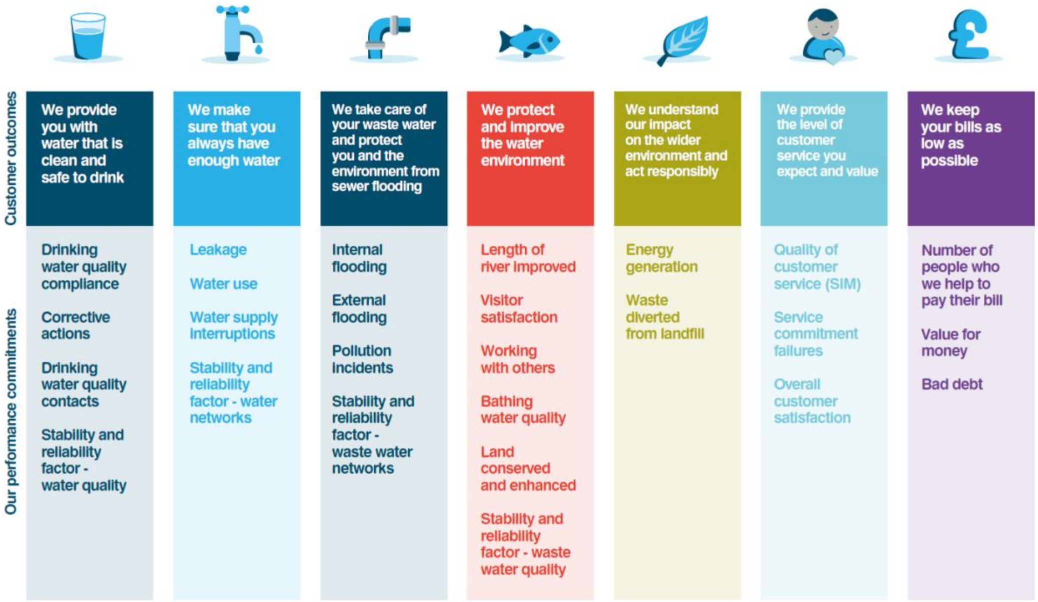
Yorkshire Water Business Strategy

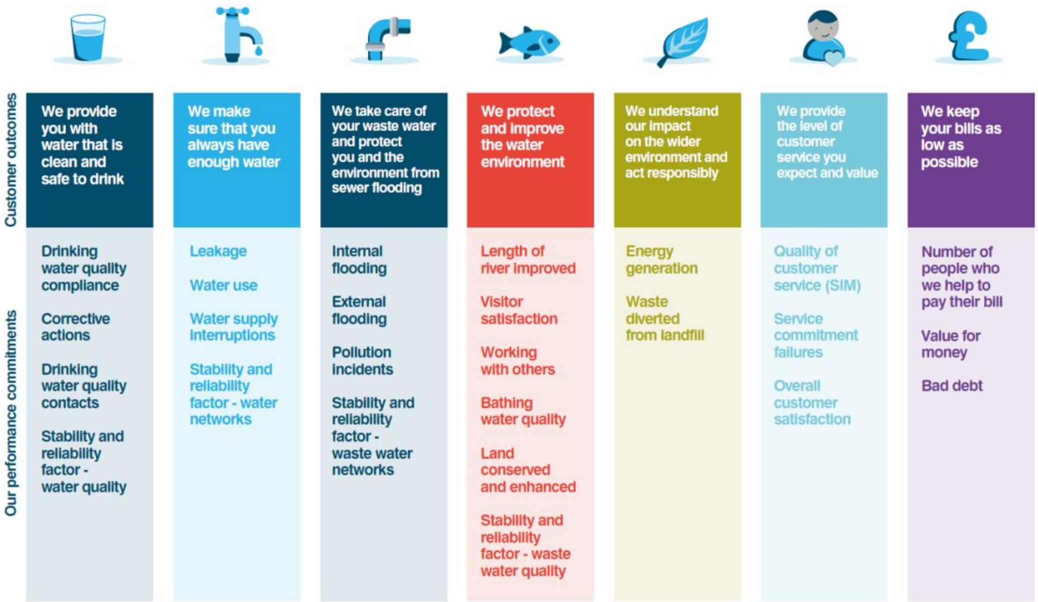
As a water and waste water company we provide some of society's most essential services and we are a custodian of the natural environment and critical infrastructure. Our vision is "taking responsibility for the water environment for good", which captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability. The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long-term. This holistic and integrated approach is critical to the resilience of our essential water and waste water services, and of our business.

Central to our strategy is the delivery of our customers' priorities, defined in seven Customer Outcomes and 26 Performance Commitments, summarised in the diagram on the following page. These were shaped and agreed through engagement with over 30,000 of our customers, and with our stakeholders and regulators. The Performance Commitments set the levels of service we are working to achieve up to 2020, across a range of activities which customers and regulators confirm are a priority, such as further reducing pollution incidents and leakage.

The regulatory regime in which we operate includes financial and reputational outcome delivery incentives (ODIs) if we under or over perform against some of the Performance Commitments. Where financial incentives have been agreed, they become applicable only when we reach defined levels of service either side of the Performance Commitment. You can find more detail about the Customer Outcomes, Performance Commitments and ODIs in our Annual Performance Report (APR) at:
www.yorkshirewater.com/ourperformance.

Our Customer Outcomes and Performance Commitments





Our new long-term strategy

We have recently consulted with customers and stakeholders over our new long-term strategy: #notjustwater. We have, so far, talked to over 26,000 customers and stakeholders to ensure that our plans are closely aligned to their long-term aspirations for Yorkshire to help develop this new approach. We've set out to find out more about our impact on Yorkshire and its people, and to better understand the diverse customer base we have and the part that water plays in their lives. We've also looked carefully at wider trends such as the impact of the growing population and changes to the climate.

Our long-term strategy sets the context for our detailed business plan for the next five-year investment cycle from 2020 to 2025, known as Asset Management Period 7 (AMP7). At the time of this publication in July 2018 we are currently finalising our AMP7 business plan for publication in September 2018.

Our new strategy includes Five Big Goals that will shape everything we do in the future. To measure our progress in working towards these Big Goals we are currently agreeing the new set of Performance Commitments that our customers, stakeholders and regulators want us to prioritise beyond 2020. They are currently under consultation, however, these will be published alongside our new business plan in September 2018.

OUR 5 BIG GOALS:

The proposed strategy sets out five big goals, based on our analysis of future pressures and what our customers and stakeholders have told us. It says how we're going to meet them. It asks five questions that we're hoping customers will help us to answer so that we can refine and finalise the plan, knowing that it meets the needs of all stakeholders.

1. **CUSTOMERS:** We will develop the deepest possible understanding of our customers' needs and wants and ensure that we develop a service tailored and personalised to meet those needs.
2. **WATER SUPPLY:** We will always provide you with enough safe water, we will not waste water and always protect the environment.
3. **ENVIRONMENT:** We will remove surface water from our sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.
4. **TRANSPARENCY:** We will be a global benchmark for openness and transparency.
5. **BILLS:** We will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying our bill. We will not waste money.

Resilience and sustainability are imperatives within our new strategy

Central to our new long-term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to resilience of our essential water and waste water services, such as climate change, population growth and resource constraints.

To help us make sure that our decision-making deals directly with these challenges, we are using the concept of the six capitals, shown below. We show how they are the critical inputs to our business model over the page.

We are working to apply the capitals to enhance our resilience and sustainability by informing our risk management, decision making and investment choices. Considering positive and negative impacts and dependencies across all the capitals, rather than just thinking about financial capital, helps an organisation improve understanding of how to make decisions which have a balanced impact and which take account of risk and value, so that more long-term sustainable approaches can be targeted.
We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental and social attributes associated with our activities and considering both our negative and positive impacts to society. Find out more about our approach, including a range of case studies and our first Total Impact and Value Assessment, on our website at www.yorkshirewater.com/capitals.

Immediate impact of our new strategy

We announced in December 2017 that we had committed significant investment to reduce leakage by 40% by 2025, cut category three pollution incidents by 40% and reduce sewer flooding by 70% by 2021, and minimise the average per property minute interruption time to two minutes by 2021, with the aim of being in the upper quartile of water companies in the next Asset Management Period (AMP7). These new commitments were made following extensive consultation with our customers and have been strongly supported by stakeholders such as the Yorkshire Forum for Water Customers.

We have also committed to a policy of open data, initially on leakage and then more widely across the organisation until we become open by default by 2020. The objective of this programme is to encourage innovation by exposing the data to people and organisations with experience in different sectors and thereby generating some new solutions. We have released 75 million lines of leakage data from our flow meters and held a two-day 'open innovation' event in May 2018.

Communicating progress and plans towards our strategy through this report
This strategic report summarises our progress in working towards our Performance Commitments and Customer Outcomes. We show the achievements made in 2017/18 and an explanation of why some commitments have not been delivered. We set out the future challenges we face, and the plans we are putting in place to mitigate strategic risks. Over the following pages you will find an explanation of our business model and a business performance summary, then a chapter on each of our seven outcomes where we share headline performance on everything material to our business and services. Each outcome chapter starts with a table summarising the Performance Commitments and other important activity. After the outcome sections we conclude this strategic report with an explanation of our approach to risk and how we have assured this report. You can find out more information and reports on our website, www.yorkshirewater.com.

Comparing our performance to others
We and the other water companies in England and Wales provide data to a central hub so you can compare how we are performing against each other and how the water industry compares to other sectors. Visit www.discoverwater.co.uk to find latest information on water quality, environmental performance, customer service and water bills.

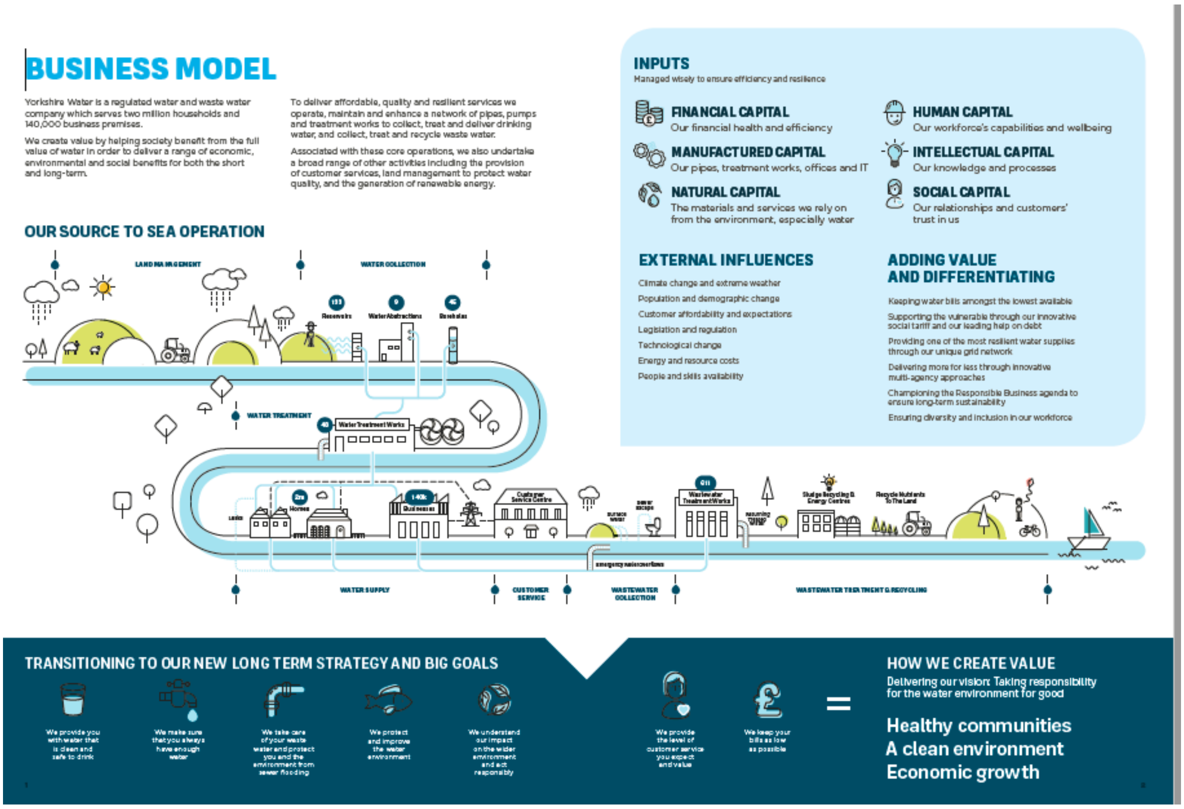
Business Model

Yorkshire Water is a regulated water and waste water company which serves two million households and 140,000 business premises.

We create value by helping society benefit from the full value of water in order to deliver a range of economic, environmental and social benefits for both the short and long-term.

To deliver affordable, quality and resilient services we operate, maintain and enhance a network of pipes, pumps and treatment works to collect, treat and deliver drinking water, and collect, treat and recycle waste water.

Associated with these core operations, we also undertake a broad range of other activities including the provision of customer services, land management to protect water quality, and the generation of renewable energy.



The following sections cover the seven Customer Outcomes used to measure financial and non-financial performance criteria. These outcomes have been identified as of highest importance to our customers. Each Customer Outcome has been considered separately, alongside other important measures.

Customer Outcome: We provide the level of customer service you expect and value

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	83.4	Year-on-year improvement	84.3	Year-on-year improvement
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	93% water 91% waste water	Average 2015-20 performance to be better than average in 2010-15	94% water 89% waste water	Average 2015-20 performance to be better than average in 2010-15
Service commitment failures Number of times we did not meet minimum standards	10,356	Average 2015-20 performance to be less than average last 3 years of 2010-15	12,203	Average 2015-20 performance to be less than average last 3 years of 2010-15
Highlights from our ambition to go beyond our Performance Commitments				
BITC Corporate Responsibility Index Score out of five stars	5 stars	5 stars	5 stars	5 stars

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we believe we need to deliver leading customer service, engage with customers and stakeholders, and secure customer and stakeholder trust.

Delivering leading customer service

Service Incentive Mechanism (SIM) is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. We again improved our SIM score over the last 12 months, from 83.4 points last year to 84.3 points this year. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of our service, for billing, waste and clean water services. From a maximum score of five points we scored 4.42 points in 2017/18, the same as in 2016/17. The billing score of 4.70 was industry leading.
- 25% of the score is determined through our performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. We scored 20.14 out of a maximum 25 points, improved from 19.24 in 2016/17.

Our improved overall SIM score confirms we have achieved our Performance Commitment and follows continued implementation of our ongoing service improvement plan. It is a business priority to continue improving our SIM score and relative performance, striving to be first in water industry customer service. Due to its priority, SIM performance forms a critical part of our remuneration incentive plan.

We strive to be a leader in service across all sectors, as measured by the UK Customer Satisfaction Index. In January 2018, our service was ranked third in the utilities sector with a score of 77.4 out of 100. Utility scores overall did not improve from the previous year's survey and our own score is lower than the 80.1 recorded in 2017. Customer satisfaction with the cost of our services was low compared to other sectors but our net promoter and trust scores were strong compared to our industry peers. The number of service

commitment failures in 2017/18 increased to 12,203 (2016/17: 10,356). However, we remain on track to achieve this Performance Commitment.
Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. We have increased the accessibility of all our contact channels and provided better methods for handling queries. This has resulted in a reduction in repeat contacts and complaints. There have been 32% fewer written complaints and a 45% reduction in those complaints needing to be escalated.

Each year the Consumer Council for Water completes an independent survey of customer satisfaction. The latest results for Yorkshire Water show high levels of overall customer satisfaction: 94% for water services and 89% for waste water services. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one. As last year, our scores are above the industry average.

This latest position on the Performance Commitments and other measures mentioned above show that we have been effectively delivering our Customer Outcome “We provide the level of customer service you expect and value”. Further improving customer service remains one of our top priorities.

As of April 2017, businesses, charities and public-sector customers in England can choose their water and waste water services retailer. This national change was enabled by the Water Act 2014. We prepared for the opening of the new water retail market to ensure high quality services and our compliance with the Competition Act 1998. For example, we have separated our retail activities from the rest of our Yorkshire Water business. We are working to withdraw from the non-household retail market as part of our strategy to focus on our wholesale and household retail activities. At the time of publication, we are in discussions to dispose of this business. While these discussions are proceeding to plan, there can be no certainty that a sale will be agreed, although it is the Board's expectation that this will be the case.

The Water Act 2014 introduces measures beyond retail separation, including abstraction licence reform and water trading. These are discussed in the “we make sure you have enough water” Customer Outcome section on page 14.

Engaging with customers and stakeholders

We ensure that we talk regularly with our customers and stakeholders to help shape the way we deliver our services to customers, and to guide the development of our future. We continue to evolve our approach to expand the quality and quantity of engagement and participation. For example, in 2017/18 we have:

- Undertaken extensive consultation with our customers and stakeholders to co-create our long-term strategy and five-year business plan.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Developed our stakeholder contact programme to include a wider range of stakeholders. This allows us to get a greater range of views on how we should deliver services in future.
- Helped build the knowledge and expertise amongst stakeholders around the challenges facing the industry by showcasing our operational activities and capital investment through a series of site visits.
- Held a series of multi-stakeholder round table discussions on key topics including flooding, safeguarding and planning of new developments to help shape both our plans and public policy.

- Established partnerships with key stakeholders, including local authorities, the Environment Agency, NGOs and others to examine the potential additional benefits that can be gained from working together, for example through the innovative Living with Water Partnership in Hull and Haltemprice.

  Further information can be found in the "We understand our impact on the wider environment and act responsibly" chapter.

Securing customer and stakeholder trust
As we state at the outset of this report, we always want to provide you with information you can trust. When we don't get it right, we risk losing trust and confidence.

We published our assurance plan to explain the process we have in place to give confidence that the information we publish is accurate and accessible. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets customers and stakeholders needs. You can find our assurance plan on our website at this link:
www.yorkshirewater.com/discoverwater

We have made considerable improvements in the transparency of our financial reporting. We have worked hard to ensure all our published information in 2017/18 has been easy to access, and easy to read and understand. These improvements were recognised by Ofwat in its Company Monitoring Framework report issued on 30 November 2017. This report complimented the steps we have taken to improve the clarity of our reporting and upgraded its evaluation of the quality of our data. We are continuing with our improvement plans including in this Annual Report and Financial Statements (ARFS), and our aim is to achieve the self-assured category in the 2018 assessment, the highest category available. This year we were placed in the targeted category, the second highest category.

We use the Business in the Community (BITC) Corporate Responsibility Index to benchmark our performance as a responsible business. Following internal improvements, particularly on diversity and inclusion, for the second year running we achieved top marks of five stars in 2017/18. In another indicator of our responsibility, we were pleased to be short-listed for the BITC "Responsible Business of the Year" 2018 award.

We work to build stakeholder trust through everything we do, including all the activity we describe throughout this section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach. During 2017/18 the industry has been challenged by Government, opposition and regulators to improve transparency and do more to build trust amongst customers. To respond to these challenges, we have already taken steps to improve transparency including:

- Simplifying our financial arrangements, including beginning the process of closing our Cayman Island subsidiaries.
- Adopting an open data approach, which will see all operational data published by 2020 in partnership with the Open Data Institute and Data Mill North.
- Commissioning independent research of stakeholders and customers to understand their views around the legitimacy agenda.
- Launching a consultation to help shape a new openness and transparency policy for the company.
- Meet the Global Reporting Initiative (GRI) Core Standard which means we disclose on a range of issues important to all our stakeholders.
- Established the Board Social Value Committee with the duty to govern the company's continued focus on best serving Yorkshire. Find out more about the Social Value Committee in the Corporate Governance Report.

These measures will help us to take further steps to build trust and confidence in the way we operate.

We recognise the role of the media in contributing to stakeholder understanding of, and trust in, our business and services. We work with all strands of the media to raise awareness of our activities and respond to media interest. We track media coverage of our business activities and met our 2017/18 target for 65% of coverage to be positive in nature.

Customer Outcome: We provide you with water that is clean and safe to drink

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance# Percentage compliance with legal standards	99.962%	100%	99.953%	100%
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Drinking water quality contacts Number of customer contacts regarding water quality	9,093	≤ 6,108	8,100	≤ 6,108
Drinking water corrective actions# Number of emergency interventions to protect customers	3	≤ 6	4	≤ 6

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
\# Calendar year measure.

In order to meet this Outcome, we believe we need to maintain excellent drinking water quality and protect raw water quality.

Maintaining excellent drinking water quality
Ensuring the quality of our drinking water supply is at the highest quality is consistently ranked as the highest priority by our customers. The Drinking Water Inspectorate (DWI) set us the highest possible target of achieving 100% compliance. Our approach to improving water supply runs from source to tap. We are continuing our long-term catchment management initiatives for improving the quality of raw water entering our water treatment works. We also work closely with landowners and the farming community to reduce the level of pesticides entering rivers from which we abstract some of the water we treat and supply.

At the end of 2017 we brought into service a fully upgraded treatment process at our site at Rivelin Water Treatment Works, which is improving and securing the drinking water supply to the City of Sheffield. Previous years have delivered a significant improvement in the aesthetic quality measured in samples. In 2017 these improvements in water quality were consolidated and the standard of drinking water remains very high due to our target flushing and replacement programmes.
We have been undertaking proactive replacement of lead pipework, and the long-term trend in the levels of this key health parameter in water continues to drop. However, for other parameters, a small increase in issues within private pipework in customers' properties led to a minor deterioration in the overall compliance figure to 99.953%. During the year we have worked with some large manufacturers to ensure that in future only Water Resources Advisory Scheme approved taps and fittings are supplied.

We continue to invest in maintaining and improving our water treatment and water supply network across Yorkshire. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs and the measure of particles in the water supplied from our sites. Our performance in 2017/18 continued to be at our target level of “stable”.

In 2017/18 we have continued our programme of flushing water mains to remove the historic sediments that have built up over time. This programme has resulted in improvement in the quality of water supplied to customers. Overall, customer contacts relating to water quality have reduced compared to the previous year with a total 2017/18 figure of 8,100 (2016/17: 9,093). This outcome represents an approximate 12% reduction since the beginning of AMP6. Whilst this improvement wasn’t enough to meet the extremely challenging Performance Commitment, our ongoing initiatives continue to reduce the number contacts we receive.

We investigate every instance of suspected deterioration of water quality, and we share the outcome of our investigations with the DWI and health authorities. In total there were 26 events investigated in 2017/18, the majority associated with third party activity, or were the result of private fittings within individual customer properties. Actions were put in place to prevent recurrence or learn the lessons from each event, but there were four events for which further corrective actions were required after discussion with regulators. The results for drinking water corrective actions were better than the Performance Commitment for no more than six incidents.

Protecting raw water quality
The quality of the water we take from the environment has been deteriorating in some areas over recent decades, because of pollution, unsustainable land management practices, and climate change. The more polluted raw water is, the more treatment is needed to make it fit for drinking. We respond with a twin-track approach, enhancing water treatment capabilities to ensure high quality drinking water at the customers’ tap and addressing problems at source through our catchment management programme.

Peat moorlands are important because they are the source for a large proportion of drinking water in Yorkshire. The water sourced from degraded peatland requires extra treatment to remove contaminants picked up in the run-off from eroded soils. We work in partnership to maintain and restore parts of Yorkshire’s peatland by re-introducing native plants, managing invasive species and blocking man-made drains to slow the water flow and restore the water table. Through our collaborative working, we are increasingly active and effective in peatland management and are growing the amount of land being restored, however there is also much more to do, by us and others, to fully protect raw water quality.

We also collaborate with the Environment Agency (EA), Natural England, and the National Farmers Union to protect water catchments by developing safeguard zone action plans. We have agreed a programme of work to help address diffuse sources of water pollution between 2015 and 2020. This includes working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldeyhyde slug control pellets. We are also investigating nitrate and other pollutants that present risks to several of our groundwater sources.

Customer Outcome: We make sure that you always have enough water

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Water supply interruptions Average interruption per property served, in minutes and seconds	9 minutes, 47 seconds	≤ 12 minutes	6 minutes, 58 seconds	≤ 12 minutes
Leakage Total leakage in million litres per day, Ml/d	295.2Ml/d	≤ 297.1Ml/d	300.3.0Ml/d	≤ 292.1Ml/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	137.4l/h/d	≤ 141.5l/h/d	135.9l/h/d	≤ 139.3l/h/d

Highlights from our ambition to go beyond our Performance Commitments				
Water efficiency support for non-household customers	Savings of 5.76 ML/d achieved	Define how our Wholesale business will manage and support non-household water efficiency in the new retail market by engaging externally to understand and help shape the evolving national approach and by investigating how we might offer sub-potable supplies	Engaged with non-household water customers and retailers in Yorkshire to understand their views on water efficiency. Initiated research into sub-potable supplies for two potential business users.	Continue to develop our approach to sub-potable supplies and engage externally to understand and shape the national approach to non-household water efficiency.

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we need to secure water supplies, reduce the company's own water use, reduce leakage, work with customers to save water and reform abstraction licences and encourage water trading.

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans since 1995/96. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our water networks. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of our long term planning and asset management to ensure the resilience and sustainability of our service.

The risk of water shortages or supply interruptions is a constant priority for us because of the consequences to our customers, operations and finances. Our operational and investment programme includes a range of activity to maintain and enhance services, for example increasing storage in the water distribution network, managing pressure in the network, and installing further data loggers to improve our knowledge of how the network operates. Water efficiency is also central to our plans and we describe this below.

We sometimes need to temporarily interrupt customers water supplies to undertake emergency and planned maintenance. We have further reduced the time we interrupt our customers' water service, measured by monitoring the average interruption per property served. At 6 minutes, 58 seconds, in 2017/18, we have performed better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers, and we have targeted this measure as one our key Performance Commitments to outperform as part of our upper quartile plans with the intention of being the frontier company by the end of year one of AMP7.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. Our Drought Plan contains several options to tailor a management response to the exact conditions of any drought as it develops. Our planning enables us to act quickly because preferred options have been assessed for their potential environmental impact, and mitigation strategies developed.

Our Water Resources Management Plan (WRMP) describes how we will maintain the balance between water supply and demand over the next 25 years. Our new WRMP proposes to reduce leakage by 40%, to remove the risk of climate change creating a deficit in our supply demand balance.

Our Drought Plan and WRMP can be found at: www.yorkshirewater.com/resources

In line with our duties under the Water Industry Act 1991, we revise our Drought Plan and WRMP every five years to ensure they reflect the most up to date information and potential risks to security of supply. Each iteration of our plans is subject to a public consultation to allow customers and stakeholders to comment. Our latest plans were published for consultation in January 2018. We expect to publish our final plans in 2019.

Reducing the company's own water use

We seek to demonstrate leadership in the efficiency of our operational use of water. We are developing a programme of operational water efficiency opportunities, including increased monitoring, that we will consider for prioritisation alongside all our investment needs as we optimise our Price Review business plan for AMP7.

For our AMP7 Business Plan we are investigating the potential for a bespoke Performance Commitment on water recycling. We will work with industry to offset 5% of current demand on drinking water with non-potable water, serving enough extra drinking water for 40,000 new houses without needing to take any more water from the environment.

Leakage

Leakage is the amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. We have almost halved leakage since 1995 and this year we narrowly missed our Performance Commitment to ensure leakage is no higher than an average of 297.1 million litres a day (Ml/d) throughout the year. We aim to keep below this target so that we have some extra ability to meet unforeseen demands.

We were on track to meet our leakage target until December 2017. The cold weather conditions in December, February and March meant that we experienced a rise in leakage. Despite deploying significant extra resources, we narrowly missed this Performance Commitment.

In early December we announced an ambitious package to reduce leakage by over 40% by 2025 and become one of the leaders in the water industry. Following industry regulator Ofwat setting new challenging targets for water companies to reduce water lost, we have already started to implement our plans to achieve this with significant recruitment of front-line leakage inspectors already commenced. We have also brought forward some of the new detection technologies in our plan, including use of satellite technology to locate leaks in Halifax, Keighley and Shipley, where over 120 leaks have been investigated with a 55% success rate. Early deployment of the 600 network listening devices in Huddersfield and use of drones on the York to Selby trunk main have found nearly a million litres per day of leakage.

To reach the target, further significant and material investment will be committed over the next two years.

Working with customers to save water
We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2017/18 we gave away 30,345 free water saving packs, and in total we have now distributed 94,350 devices. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. For more detail please see page 26. This has helped us achieve our Performance Commitment for water use, with per capita consumption reduced from 137.4 l/h/d in 2016/17 to 135.9 l/h/d in 2017/18.

We provide a range of water saving advice and support:

- **Free leakage repairs** are offered to our customers for all domestic supply pipes which are not under buildings. In addition, we raise awareness with customers that they are legally responsible for the supply pipes in their property boundary. We also offer advice and support to help customers understand how they can manage their supply pipes. We also offer assistance for repair of any commercial supply pipe leaks.
- **Free water meters** are provided to household customers on request. Meters provide a financial incentive to use less water. Our WRMP forecasts the number of households with meters will increase over the next 25 years, from 50% to 84% by 2044/45. Metering is instinctively an appropriate method of charging for water supply and sewerage services, based on payment for use. However, metering can result in a more expensive bill because of the additional cost of installing and maintaining the meter.
- **Free water saving devices** like tap aerators and shower timers are provided to households, student accommodation and community groups. Our website also includes a link to our contractors' website offering customers the opportunity to purchase a range of water saving products including water butts.
- **Advice and information** is provided through communication campaigns, at events, in our written communications, social media and on our website. We also run education centres for schools and provide information packs for teachers and their pupils.
- **A pilot home audit and retrofit water fitting service** will be carried out at 500 participating customers' properties in 2018. If the trial is successful the service will be offered to a different area of our region each year.

More information can be found on the dedicated water efficiency section of our website at http://www.yorkshirewater.com/save-water-and-money.aspx.

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to further improve the country's water efficiency and resilience, for example by making it easier for organisations to buy and sell water from each other. We have traded water with our neighbouring water companies for many years. Currently, we have an import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs.

We have discussed potential future transfers with third parties including neighbouring water companies as part of revision to our WRMP. Our draft WRMP19 does not include any new imports and we have not received any requests from other abstractors. In our 2019 WRMP we aim to reduce our leakage 40% by 2025. This will create a significant surplus in our region, making us robust to climate change risks and creating greater potential for us to offer trades to other abstractors.

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water resources planning, and associated investment to maintain a secure supply of water to our customers. It will enable third parties to identify opportunities to both supply water resources or provide demand management or leakage services in Yorkshire.

The government is working to reform the abstraction licence regime and we are engaged with Defra, UK Water Industry Research (UKWIR) and Water UK to monitor and inform the evolving national approach.

We remain focused on this area to ensure resilience and efficiency in the face of the changing climate and a growing population.

Customer Outcome: We take care of your waste water and protect you and the environment from sewer flooding

		2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*					
Internal flooding Number of incidents		1,769	≤1,919	1,682	≤1,919
External flooding Number of incidents		9,145[+]	≤10,487	9,296	≤10,487
Pollution incidents[#] Number of incidents	Category 1 and 2 †	4	≤ 4	3	≤ 2
	Category 3 †	207	≤ 211	202	≤ 211
Stability and reliability – waste water networks Improving / Stable / Marginal / Deteriorating		Stable	Stable by 2020	Stable	Stable by 2020

Highlights from our ambition to go beyond our Performance Commitments				
Working in partnership to reduce flooding	Worked with Environment Agency (EA) and Lead Local Flood Authorities (LLFAs) to agree joint flood partnership schemes in Leeds and Rotherham, including a £300k contribution to resolve residual sewer flooding risks upon completion of the Leeds Flood Alleviation Scheme.	We collaborate with the EA and LLFAs to produce a documented fluvial and pluvial flood alleviation partnership investment plan for the Yorkshire region	We engaged with the EA and all 14 LLFAs to agree a wide range of partnership opportunities to inform our future plans. A member of EA staff was located at our offices one day a week to ensure close working.	Prepare to deliver our commitment from 2020 to remove surface water from the sewer network, and develop the process for securing seed funding for flood management partnership schemes in AMP7.
Developing our drainage strategy	We continued to develop our drainage strategy with others, for example developing the partnership approach for Hull flood management and supporting the national 21st Century Drainage project to define necessary change and best practice.	Publish our drainage strategy and start to document our 5 and 25 year sewer network investment plans	We have a documented drainage strategy and continue to develop our Strategic Drainage Management Planning Process, which helps us identify opportunities to disconnect surface water and manage storm water using Sustainable Drainage Solutions (SuDS).	Complete the documentation of our 5 and 25 year sewer network investment plan, and consult with regulators, customers and stakeholders

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
[#] Calendar year measure.
† Pollution incident categories are defined by EA as major (category 1), significant (category 2), or minor (category 3).

In order to meet this Outcome, we believe we need to manage overall flood risk and prevent pollution from our network.

Managing overall flood risk

We play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short term incidents and long term plans. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding, for example by removing sewer blockages and maintaining sewer capacity. We have maintained "stable" status in the Performance Commitment for the Stability and Reliability of our waste water networks. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

In 2017/18, we again achieved our Performance Commitments for internal and external sewer flooding. The number of internal sewer flooding incidents reduced on the previous year while the number of external sewer flooding incidents increased, but still achieving the required level of the Performance Commitment.

We continually invest across the region and collaborate with others to reduce flood risk. Below we provide examples of some of our recent progress:

- In Calderdale, we are contributing to a multi-agency Flood Action Plan that will see over 1,600 homes and businesses better protected. The first tranche of up to 200,000 trees have been planted as one of a series of measures that will help slow the flow of flood water in the Calder Valley.
- Yorkshire Water has been working with the Environment Agency and Defra to examine the use of our reservoirs to help flood management whilst understanding the wider implications that changes in reservoir operation could have on water supply in Yorkshire. During Winter 2017/18 we conducted a trial change in how some of the reservoirs above Hebden Bridge are managed.
- The PR19 Flood and Coastal Risk Management (FCRM) Yorkshire Water/Environment Agency Partnership has been established to align and identify joint investment opportunities for flood risk projects, in order to form a joint investment plan for AMP7.
- In Sheffield we have contributed a piece of land and funding to lay a flood relief overflow pipe in partnership with Sheffield City Council. This is to prevent a culvert overflowing during prolonged rainfall events and flooding properties.
- At Runswick Bay we have relocated an existing sewer on the beach to aid the installation of Rock Armour along the sea wall, as part of a wider coastal defence project. The work provides an increased level of protection from coastal flooding to residents in Runswick Bay, and decreases damage and wear and tear to both the sewer network and the pumping station from sea water ingress.
- By working in partnership with a commercial customer and the Environment Agency, we have protected a commercial premise from flooding from the sewer, rivers and surface water. We contributed to the property level resilience scheme, which enables the company to continue to trade and employ local people.

In November 2017, leading water management specialists from across the globe came together to focus on how we make Hull and Haltemprice a more resilient city to flooding. Following this the "Living with Water Partnership" was founded.

Yorkshire Water is one of four leads in this Partnership along with the Environment Agency, Hull City Council and The East Riding of Yorkshire Council. The initiative's aim is to develop even more sustainable solutions that work in harmony with the environment and provide wider benefits to the local community such as access to green space, improved air quality and biodiversity.

Living With Water is a flagship project already gaining external recognition for its innovative partnership working. Hull was one of five global cities which successfully bid to work with the Rockefeller Foundation to develop and pilot a new City Water Resilience Index.

Preventing pollution from our network
The number of pollution incidents from our sewer network has reduced over recent years, albeit fluctuating each year because sewer performance is influenced by the weather. We achieved our pollution incidents Performance Commitment in 2017/18 for both serious pollution incidents classed as Category 1 or 2 (Major or Significant) by the Environment Agency (three versus a target of four or fewer), and other pollution incidents which are classed as Category 3 (202 versus a target of 211 or fewer). We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for two serious incidents in 2018/19 and zero serious incidents in 2019/20. However, we also recognise that consistently achieving this Commitment will be challenging.

During 2017/18 we were prosecuted for the following pollution incidents that took place in 2014 and 2015.

- In November 2017, we were fined £45,000 for a single offence under the Environmental Permitting Regulations at Sandy Lane Pumping station, Doncaster, South Yorkshire.
- In July 2017, we were fined £600,000 for a single offence under the Environmental Permitting Regulations at Hinderwell wastewater treatment works, Scarborough, North Yorkshire.

Our plan to reduce both sewer flooding and pollution incidents to achieve industry-leading performance in the period 2020 to 2025 aims to result in outperformance against these measures during the current five-year investment period (AMP6) and on into AMP7. This will benefit both customers and the environment.

We explain more about our work to reduce pollution in the “We protect and improve the water environment” section of this report.

Customer Outcome: We protect and improve the water environment

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Length of river improved Total cumulative length in kilometres, km	Preparations commenced	≥ 440km by 2020	Programme commenced	≥ 440km by 2020
Bathing water quality# Number of Yorkshire's designated bathing waters that exceed minimum legal standards	17	≥ 15	18	≥ 15
Land conserved and enhanced Total cumulative area in hectares, Ha	11,492	≥ 11,689Ha by 2020**	11,479	≥ 11,736Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	97%	Survey and publish figures annually	96%	Survey and publish figures annually
Working with others Number of solutions delivered in partnership with others	5	≥ 3	12	≥ 3

Highlights from our ambition to go beyond our Performance Commitments				
Delivering our part of the National Environment Programme in partnership	The delivery of our programme to enhance the environment is tracked by a joint YW/EA programme board. Some risks to delivery have been escalated and mitigation put in place.	Continue delivering our documented five-year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where mutually beneficial.	We continue to deliver our environmental programme with a range of partners such as the Rivers Trust and the Yorkshire Invasive Species Forum, monitored by a joint programme board with the EA.	Continue delivering our documented five-year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where mutually beneficial.

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
[#] Calendar year measure.
**We reduced the value by 47 Ha to reflect that we have removed land we no longer own

In order to meet this Outcome, we believe we need to reduce pollution and enhance river quality, invest in the region's bathing waters and manage our land to maximise its potential.

Reducing pollution and enhancing river water quality

We collect, treat and return over one billion litres of waste water safely back to the environment every day. We have delivered a range of benefits for society through a step change to the region's water environment since water industry privatisation. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our waste water quality. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We remain on track in the delivery of our programme of environmental investment which contributes to our Performance Commitment to improve 440km of river by 2020. After detailed investigation, we determined that some improvement schemes originally in our plan, were not viable or did not deliver the required level of river improvement. We have worked with the Yorkshire Forum of Water Customers to agree a methodology to progress alternative schemes to ensure we still improve at least 440 km of river

The EA annually completes an Environmental Performance Assessment (EPA) of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA have classified our 2017 calendar year performance as a 'Good Company', with three out of a maximum four stars in their new rating system.

The EA report our overall treatment works compliance in the 2017 calendar year was 97.6%, which is an improvement from 97.2% in 2016.

Five of our 611 waste water treatment works did not meet their discharge permit conditions in 2017, securing 98.3% compliance. This was an improved performance compared to 2016 when we had seven failing waste water works or 97.6% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

We had no failures in 2017/18 at our 20 water treatment works, which have a discharge permit. This is an improvement compared to 2015/16 and 2016/17, when we had one and two failures respectively. We also operate a further 29 water works which do not require a discharge permit.

While delivering environmental water quality benefits, new waste water treatment capabilities can be financially expensive and carbon intensive. In 2015, we made six commitments to the Government's Infrastructure Carbon Review to work in partnership and use innovative solutions to protect both the atmospheric and aquatic environments. We understand our impact on the wider environment and act responsibly.

We also invest to protect the water environment from pollution caused by escapes from our sewer network. We discuss this in the "We take care of your waste water" section of this report.

Investing in the region's bathing waters

In 2015, Yorkshire Water completed a £110m investment in key assets along the coastline to lessen the influence that our operations had upon the marine environment. Since then, we have continued to enhance our asset base to ensure its resilience. The table below shows the number of designated bathing waters in Yorkshire which achieved each of the water quality classifications defined by the Bathing Water Directive.

Classification	2017#	2016#
Excellent	5	11
Good	13	6
Sufficient	0	1
Poor	1	1

Calendar year measure.

We have achieved the Performance Commitment to maintain at least 15 beaches at an excellent or good legislative standard. 18 of our 19 beaches met this standard.

2017 has seen six beaches move from Excellent to Good status. There are many factors for this ranging from a particularly wet summer, to councils carrying out works on beaches to improve quality overall but having an impact on bathing water quality in the short term, as was the case in Withernsea.

Scarborough South Bay remains poor for a second consecutive year. DNA profiling investigations led by the Environment Agency show there are four key inputs to the water

quality that are affecting the bathing water quality, dogs, seabirds, human waste and industrial effluent. The Yorkshire Bathing Water Partnership comprising of key stakeholders will continue working together to improve the bathing water quality at Scarborough South Bay.
Of the eight resort beaches in Yorkshire, one will be able to apply for the coveted “Blue Flag” status in 2018. A Blue Flag demonstrates that the beach complies with a range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met, and other organisations also play a key part in achieving this aspiration.

We continue to work closely in partnership to play our part in achieving Excellence on Yorkshire’s designated beaches as part of the Yorkshire Bathing Water Partnership.

Managing our land to maximise its potential
With approximately 28,000 hectares of land, we are one of the largest land owners in Yorkshire. While managing our land with the primary purpose to protect water quality, we also seek to maximise wider benefits for society, such as biodiversity, recreation and climate change mitigation.

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,689 hectares of land by 2020, much of which we are delivering in partnership with others. One example of our activity here is the provision of financial support to the North York Moors National Park Authority, to enable control programmes of non-native invasive species. Some invasive species have spread rapidly along watercourses to smother native plants during the summer, before dying back in the winter leaving the river bank without stabilising vegetation, and therefore vulnerable to erosion. We are also contributing to a similar project, River 2015, in partnership with the EA and Yorkshire Wildlife Trust to support volunteers to remove Japanese Knotweed and Himalayan Balsam along the River Holme from Holmbridge to Holmfirth.

Most of our land is tenanted to farmers. We are implementing an innovative, partnership approach to managing our farm tenancies called “Beyond Nature”. This is our vision for the delivery of multiple outcomes from our land, tailored to each local site to improve water quality, biodiversity and carbon storage while supporting agricultural production. Outcomes from the land should be diverse and appealing to all, protecting the Yorkshire landscape for future generations. In Summer 2016 we started towards this approach at Humberstone Bank Farm, welcoming a local farmer to take over the tenancy. More recently we have identified our next sites, Stott Hall Farm and High Woodale Farm with both gaining initial PR coverage. We currently have 3,568 hectares of tenanted land signed up to Beyond Nature Management Plans, and are looking to roll out this vision across the estate to optimise the value from our land for us all.

We provide a range of recreational opportunities by providing open access to much of our rural estate. One of our Performance Commitments is to survey recreational visitors to our sites and publish the results. Our surveys show that users consistently report high levels of visitor satisfaction, most recently reporting 96% visitor satisfaction.

We also received the ‘Good Access Scheme’ award for 2017. It recognises the best countryside disabled access practice in Yorkshire in any given year and is for great work to improve the access on much of our landholding in Yorkshire. Open Country who gave the award were particularly appreciative of works at Fewston Reservoir and Tophill Low. All the activity we discuss above demonstrates strong performance in working towards our Customer Outcome “We protect and improve the water environment”. We recognise there is more to do and we continue to escalate our efforts.

Customer Outcome: We understand our impact on the wider environment and act responsibly

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Renewable energy generation Percentage of our energy needs generated by renewable technology	10.4%	≥ 12%	11.4%	≥ 12%
Waste diverted from landfill Percentage of our waste diverted from landfill	99.3%	≥ 95%	99.4%	≥ 95%
Highlights from our ambition to go beyond our Performance Commitments				
Operational carbon emissions Thousand tonnes of carbon dioxide equivalent (KT CO_2e)	307 KT CO_2e and carbon Trust Standards (CTS) maintained.	≤ 306 KT CO_2e, and maintain CTS	288 KT CO_2e and CTS maintained.	≤ 306 KT CO_2e, and maintain CTS
Fundraising to support WaterAid's Everyone Everywhere 2030 campaign	£732,000	£1m by 31/03/19	£845,000	£1m by 31/03/19
Lost Time Injury Rate (LTIR) Injuries resulting in time off work per 10,000 hours	N/A	≤ 0.42	0.5	≤ 0.34
Skills and human resource planning	We hired another 9 apprentices in 2016/17 and introduced new apprenticeship programmes. We also collaborated to launch the Workforce Renewal and Skills Strategy for the utilities sector.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.	104 apprenticeships have been completed or are in progress.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.
Diversity and Inclusion (D&I) Working towards our ambition to be as diverse as the society we serve, inclusive of all	We became the first UK water company to achieve the National Equality Standard (NES) and we delivered a range of other progress and development activities.	Implement our D&I programme of activity to help us be more reflective of the customers we serve, maintaining our certification to the NES.	The D&I Action Plan is being rolled out across the business, with an extensive programme in 2017/18 including convenorship of the Yorkshire Diversity Forum, placements for students with autism spectrum disorders, and dedicated workstreams for LGBT, Ethnicity, Gender and Ability.	Implement our D&I programme of activity to help us be more reflective of the customers we serve, maintaining our certification to the NES.
Colleague engagement Results from an independent survey of colleague perception	78% average score. 67% response rate.	Achieve a response rate of 70% and improve average score by at least 1%	71% average score. 73% response rate.	Achieve a response rate of 70% and improve our average performance score by at least 1%

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

Our approach to understanding our impact on the wider environment and acting responsibly to protect our environment includes managing electricity consumption, reducing waste and greenhouse gas emissions, supporting Yorkshire charities and promoting global safe water, working ethically and responsibly for human rights through our supply chain, and ensuring our colleagues are treated appropriately through a health and safety focus, diversity and gender pay and conducting colleague surveys.

Managing electricity consumption and costs

Electricity accounts for approximately 64% of our operational carbon emissions and is one of our largest operating costs. We work to minimise our electricity consumption and maximise our self-generation of renewable energy.

Our consumed electricity increased in 2017/18, from 570GWh to 598GWh from the previous year. We work hard to minimise our electricity consumption and to maximise the amount of energy we generate. In 2017/18, we supplied 11.4% of our needs through self-generated energy. This was a two year high compared with 2015/16 & 2016/17, where self-generation was 11.3% & 10.4% respectively. However, this falls short in achieving our Performance Commitment of generating 12% of our energy needs from renewables. This shortfall principally arose due to delays or defects in capital schemes, and cold weather at the end of the year impacting generation asset performance.

Despite this, Esholt (our largest facility) has seen a significant improvement, with a 200% increase when compared with 2016/17 from 5.1GWh to 15.4GWh.

With a strong improvement in generation performance on the previous year, we expect that the 12% target will be achieved in 2018/19. We will continue to grow our long-term energy generation capacity towards our aim of 17% by 2020. We have commenced the construction of our £72m sludge treatment and anaerobic digestion facility at our Knostrop treatment works in Leeds, completion is expected in 2019. We are also developing a framework contract for the supply of solar power to several Yorkshire Water sites.

Turning waste into resource

We continue to advance our work to reduce waste and find innovative ways to take more value, from under-used materials and resources such as waste water, sewage sludge and our operational land. Ongoing success in our Performance Commitment to divert almost all our waste from landfill serves to demonstrate our strength in this area.

Our approach is based on collaborative engagement with multiple stakeholders because this enables better opportunities than working alone. We are working closely with Local Authorities, and community groups, universities and regional development agencies, for example.

Our flagship resource recovery programme is progressing well at Esholt waste water treatment works in Bradford. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused waste water. In addition, recovery of redundant sludge lagoons next to the river Aire will provide benefits such as reduction in flooding and increased biodiversity.

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our services. We have reduced our operational emissions by nearly 30% since 2008/09, primarily by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Our ongoing ability to maintain the Carbon Trust Standard (CTS) demonstrates our performance through an independent verification process.

We have seen a fall in our emissions over the last year. This is for various reasons, including:

- A drop in the carbon intensity of the national grid as the UK decarbonises its energy supplies.
- A reduction in transport emissions by 7%

- Increased Self generation by 8.1GWh, resulting in the need to purchase less energy from the grid.

Our latest emissions figures are shown in the table below. These figures are estimated using a standardised UK water industry tool that follows Government reporting guidelines and uses latest emission factors.

	2017/18	**2016/17**	**2015/16**
Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO_2e)			
Scope 1 emissions KT CO_2e	74	65	84
Scope 2 emissions KT CO_2e	187	211	241
Scope 3 emissions KT CO_2e	27	31	29
Total gross emissions KT CO_2e	**288**	**307**	**354**
Total net emissions KT CO_2e	**288**	**307**	**353**
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO_2e)			
Emissions per million litres of water served	225	263	282
Emissions per million litres of waste water treated	235	218	265

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving company vehicles, and releasing gasses during treatment processes.
Scope 2 emissions are those indirectly released to the atmosphere through our purchase of national grid electricity to pump and treat water and waste water.
Scope 3 emissions are other indirect emissions. We include business travel on public transport and in private vehicles, activities from outsourced operators and emissions from the transmission and distribution of the grid electricity that we purchase.
The difference between total gross and net emissions is the deduction of the small amount of our self-generated electricity that we export for use by others.

Reducing embedded greenhouse gas emissions
Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. This is good for the environment and drives innovative and partnership solutions that deliver new ways to save costs. In 2017/18 we continued to develop our approach, for example further improving our processes to capture as-built carbon information from capital investment schemes which is being used to inform investment planning. We have also been working towards developing a carbon governance framework to ensure we are measuring our embedded emissions consistently across the whole programme. This will help us to learn about our successes in reducing carbon and help us further enhance our approach to cutting carbon throughout our asset management programme.

Our environmental governance and policy
Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient and effective conduct of our business. Central to our environmental governance and risk management is our ISO 14001 accredited Environmental Management System (EMS). We have been continually accredited to the ISO 14001 standard since 2004 and we are now preparing for the upcoming changes to the ISO 14001 standard. Environmental performance is reported through our website which is regularly updated. This can be viewed at: www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment

Supporting communities through charitable giving and volunteering
We challenge ourselves to "make a difference" to the quality of people's lives over and above the provision of high quality water and waste water services.

Yorkshire Water, and its parent company Kelda, has well established community programmes which provide support through voluntary time-giving and help-in-kind to a wide variety of different individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which it operates.

Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. We had 7,163 visitors during 2017/18, including students from 165 different educational establishments. Since 2003, over 111,000 visitors have visited our education centres to learn about water and waste water treatment processes. In 2017, we opened a new education facility at Tophill Low Nature Reserve which has had many school and community bookings.
- Our volunteering programme “Hands Up” links volunteering to the company’s vision “Taking Responsibility for the Water Environment for Good”, and comprises initiatives enabling employees to choose from a variety of volunteering opportunities such as providing support to organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB and supporting STEM awareness in schools.
- We supported the City of Hull in its role as UK City of Culture in 2017. This helped us to reinforce our role providing social, economic and environmental benefits in Hull.
- Our ‘Soak it Up’ campaign aims to work with local communities and schools to encourage residents and pupils to think about how small actions can contribute towards the removal of flooding. We’ve partnered with Yorkshire Wildlife Trust on this campaign who will be helping with the final design and implementation of installations in pilot schemes, principally in primary schools. Colleagues from Yorkshire Water, and our partner companies, will be encouraged to take part in volunteering days where we will install the SuDS solutions for future use.

Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our strategic partnership with WaterAid that will deliver knowledge sharing on water and sanitation, provide infrastructure support and much more. We are committed to raising £1m for WaterAid to support projects that will transform lives in Ethiopia. Four years into our five-year campaign, we are well ahead of plan having already raised over £845,000 through donations from colleagues, customers, partners and the company. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience, and a youth engagement programme to raise awareness in schools. The company won the Charity Partnership (Utilities & Services) Award in the Business Charity awards 2017 for its’ partnership work with WaterAid.

Working ethically and respecting human rights

Our Human Rights Policy recognises international human rights, as set out in the Bill of Human Rights, and the principles described in the UN Global Compact. The policy can be found at:
www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

It is a fundamental policy of the Kelda Group to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found here:
www.keldagroup.com/media/3317/code-of-ethics.pdf

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls. In compliance with the Modern Slavery Act 2015 we publish annual statements at:
www.keldagroup.com/corporate-responsibility/modern-slavery-act-transparency-statement.aspx

Ensuring responsibility throughout our supply chain

Our ambition is for our global supply chain to share our commitment to the continuous improvement of the water environment and wider sustainable development. Our sustainable supply chain policy applies across all our supply chain activities and seeks to articulate a consistent approach with straight forward expectations. Our policy can be found at:
www.yorkshirewater.com/sites/default/files/thekeldagroupsustainablesupplychainpolicy.pdf

We work with our supply chain to ensure security of essential supplies, reduce demand for depleting natural resources and to enable a cycle of social, economic and environmental improvements. We encourage a similar message to be passed through the supply chain by everyone we work with. We have further matured the framework we introduced in 2015, following our commitment to consistently incorporate a holistic set of sustainability criteria in the risk assessment for all new contracts.

Health, safety and wellbeing

During 2017/18, we made significant progress in managing and improving our health and safety performance. We embedded our ten Life Saving Rules, and set them in the context of a Fair Culture which responds to health and safety behaviours to create an atmosphere of trust. The rules have been developed to protect colleagues and reinforce our health and safety values. They set health and safety standards and expectations for the most critical activities undertaken by colleagues, and are fundamental in reducing our operational risk.

Through the continued work on our Health and Safety Improvement Plan, we have implemented a new incident investigation and lessons learned process to enable us to better learn from, and prevent reoccurrence of, accidents. In addition, improvements were made in assessing our operational safety risks through the introduction of a mobile "Point of Work Risk Assessment" phone app that allows easy access for all colleagues. We have made further investment made in process safety management to understand the risks of major accident hazards and implement control measures.

In terms of our safety performance, the target for lost time injury rate (LTIR) was missed by 0.08 (target of less than 0.42). However, we introduced a proactive leading safety indicator that focussed on embedding learning from High Potential Incidents, these are incidents that may not have resulted in injury but had the potential to cause serious injury had circumstances been slightly different.

In health and wellbeing, significant progress was made in the key area of mental health. Over 500 colleagues across the business have been trained in the Government accredited Mental Health First Aid course. This equips them to recognise early signs of mental health problems in colleagues, thus allowing early intervention and access to professional help from the company's in-house Occupational Health Team.

We have set up a Menopause Support Group in line with current Government research on the impact of menopause on women and how organisations need to adapt to support them during transition. The Group has publicised its work to colleagues across Yorkshire Water through seminars, videos and a social media group; and in addition, numerous research articles have been published to raise awareness of menopause in the workplace.

Looking ahead we will continue to focus on key leading and lagging health and safety indicators to monitor our performance and the success of our health and safety strategy and improvement plan. In safety, we are targeting a Lost Time Injury Rate of no more than 0.34 in 2018/19, and from a leading indicator perspective we will track the completion rate for incident investigations into all significant incidents utilising our new incident investigation and lessons learned process.

Attracting great people and maintaining the skills we need

We recognise that our people are our most important asset, and are striving to make our workforce as resilient as we can to ensure our success both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with a fair wage and reward package. In 2017/18 we have:

- Expanded our apprenticeship offering from nine as of March 2017 to 110 as of March 2018, maximising our usage of the apprenticeship levy
- Continued to develop our nine graduates ready to complete their programme in August 2018
- Introduced apprenticeships in environmental conservation, chartered surveying, construction site management, water process technicians and business admin all at level 3 or above in high priority business areas, anticipating future need based on our skills gaps and potential risk of lost knowledge due to retirement
- Developed a Competency Framework focusing on organisational wide and specific operational competencies
- High hazard risks and developed support to mitigate through appropriate learning interventions and assessments. These interventions are now mandatory to specific roles, and support colleagues to be safe and effective in role.

Championing diversity

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March for the last three years. The total number of Yorkshire Water employees shows an increase from approximately 2,400 to 2,700. This change is primarily a result of transfers within the Kelda Group.

Gender	Male			Female		
	2018	2017	2016	2018	2017	2016
Statutory directors	8 (66.7%)	6 (60.0%)	7 (77.8%)	4 (33.3%)	4 (40.0%)	2 (22.2%)
Senior managers	18 (75.0%)	16 (69.6%)	16 (72.7%)	7 (25.0%)	7 (30.4%)	6 (27.3%)
Total employees	2,086 (75.9%)	2,021 (75.3%)	1,862 (76.0%)	661 (24.1%)	662 (24.7%)	589 (24.0%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Statutory directors	12 (100%)	10 (100%)	9 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	23 (92.0%)	21 (91.3%)	21 (95.5%)	2 (8.0%)	2 (8.7%)	1 (4.5%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Total employees	2,211 (80.5%)	2,153 (80.3%)	1,951 (79.6%)	140 (5.1%)	113 (4.2%)	97 (4.0%)	396 (14.4%)	417 (15.5%)	403 (16.4%)

Age	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	2018	0 (0.0%)	0 (0.0%)	0 (0.0%)	5 (62.5%)	1 (12.5%)	2 (25.0%)
	2017	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (30.0%)	5 (50.0%)	2 (20.0%)
	2016	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (33.3%)	5 (55.6%)	1 (11.1%)
Senior managers	2018	0 (0.0%)	0 (0.0%)	10 (41.7%)	13 (54.2%)	1 (4.1%)	0 (0.0%)
	2017	0 (0.0%)	0 (0.0%)	11 (47.8%)	10 (43.5%)	2 (8.7%)	0 (0%)
	2016	0 (0.0%)	1 (4.5%)	10 (45.5%)	11 (50.0%)	0 (0.0%)	0 (0.0%)
Total employees	2018	195 (7.1%)	693 (25.3%)	679 (24.8%)	745 (27.0%)	419 (15.2%)	16 (0.6%)
	2017	174 (6.5%)	667 (24.9%)	670 (25.0%)	740 (27.5%)	414 (15.4%)	18 (0.7%)
	2016	153 (6.2%)	595 (24.3%)	594 (24.3%)	736 (30.0%)	363 (14.8%)	10 (0.4%)

We strive to be as diverse as the society we serve, inclusive of all. Diversity and Inclusion provides business benefits and supports social cohesion. Examples of activities we are doing in this area are:

- In 2016 we became the first water company to achieve the National Equality Standard following an independent assessment. The feedback from this has been placed into an action plan which we have continued to implement throughout 2017/18.
- We have further developed our partnership with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships with students with an autistic spectrum condition. In the first year 5 out of the 7 secured further opportunities within Yorkshire Water, and this year another 5 students have joined the programme. We are also now part of an Employer's Forum encouraging other businesses to take part in the programme.
- We invested in a Business Disability Forum Membership; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability.
- We joined the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity. Through this we have attended round table discussions on inclusion at the House of Lords, sharing best practice and understanding what others do.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and

public sector. The forum comes together on a quarterly basis at Yorkshire Water to share best practice.

- We have hosted approximately 250 young female students during women in engineering Week to raise awareness of STEM subjects and career opportunities. We are running the programme again this year.
- Historically we have had three specific streams to support D&I internally, these are Ethnicity, Gender and Ability. This year due to external and internal research and business need we have created an LGBT Stream. The stream is running a workshop on how to bring your whole self to work, there are plans to get involved with Leeds Pride and we are supporting IDAHO day (International Day Against Homophobia, Transphobia and Biphobia)
- We have continued to invest in female development leadership programmes to address the underrepresentation of females in leadership roles. In 2017 we invested in a further 20 colleagues on to the STEM Forward Ladies programmes and have confirmed a further 20 for this year.
- We created a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, are undertaking placements for up to 12 weeks, and are studying alongside their placements.
- For the first time in 2017 we supported Black History Month, we hosted a seminar for colleagues and an external seminar for customers with a local historian to learn about the diverse history of the Yorkshire Region.
- Due to the success and breadth of our activities, we have been nominated for a National Diversity Award.

Gender pay

We started reporting information on the 'gender pay gap' in 2015. Since then, we have seen the development and implementation of The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and we have now published our gender pay gap data, in line with the Regulations, for both Yorkshire Water and Loop, as summarised below.

Pay and bonus gap

Company	Mean Hourly	Median hourly	Mean Bonus	Median Bonus
Yorkshire Water	4.8%	4.7%	-10%	0%
Loop	5.5%	-2.0%	40.5%	16.2%

Note that negative figures indicate that the balance is in favour of females.

Receiving bonus

Company	Females	Males
Yorkshire Water	98.1%	96.8%
Loop	89.4%	86.0%

Pay quartiles

Company	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
Yorkshire Water	22.0%	78.0%	23.6%	76.4%	22.5%	77.5%	30.6%	69.4%
Loop	60.3%	39.7%	74.1%	25.9%	67.8%	32.2%	62.1%	37.9%

Further information about our gender pay gap and the action we are taking to address it can be found here:

https://www.yorkshirewater.com/sites/default/files/730760_YWS_Gender%20Pay%20Gap_Web_A4.pdf

Future activity – Ethnicity pay gap
Following the McGregor Smith review in 2017 we are aiming to report our Ethnicity Pay Gap data in our 2018/19 results, after the report included this in its recommendations.

Securing colleague trust
Through our ongoing engagement activities and improvement programme we are working to maintain and further enhance our strong colleague-company relationships. In 2017/18, our colleague engagement survey secured a 73% response rate and concluding an average overall engagement score of 71%. This engagement score is calculated from all colleague responses to a range of engagement and perception questions. We will be monitoring performance over time to better understand colleague perceptions and areas for further improvement. Local teams discuss the results and agree improvement plans, and further consideration is provided to cross-business needs at directorate and company level.

Customer Outcome: We keep your bills as low as possible

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	26,902	Publish figures annually	28,853	Publish figures annually
Cost of bad debt to customers Percentage of the average customer's bill	2.94%	≤ 3.16%	3.10%	≤ 3.16%
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	79% water 82% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15	76% water 79% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15

Measures of our financial health, which measure our ambition to go beyond the Performance Commitments				
Revenue Income received for services provided	£1,003.1m	£1,021.8m	£1,026.7m	£1,068.1m
Operating profit Gross profit less operating expenses, before deduction of interest, taxes and exceptional items	£285.8m	Not published	£281.1m	Not published
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation *- Reconciled to Operating Profit in note 4*	£563.2m (Excluding exceptional costs of the 2015 floods)	Not published	£577.1m	Not published
Capital expenditure The amount spent to acquire, maintain and enhance assets and infrastructure	£378.6m (Excluding exceptional costs of the 2015 floods)	£439.3m (Excluding exceptional costs of the 2015 floods)	£426.7m	£547.1m
Net debt[#1] The value of loans owed, offset by available cash	£3,773.6m	Not published	£4,101.9m	Not published
Credit rating[#2] The lowest of our ratings from the major credit reference agencies	Baa2	≥ Baa1	Baa2	≥ Baa1
Gearing (Regulated Yorkshire Water)[#1] The ratio of regulatory debt net to the published RCV	75.4%	Not targeted at Yorkshire Water level	74.3%	Not targeted at Yorkshire Water level
Regulatory Capital Value (RCV) The regulated valuation of Yorkshire Water	£6,144m	Not published	£6,446m	Not published

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

[#1] Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation, discounted cashflow etc - please see note 17 of the Financial Statements for more details. Regulatory net debt used for the gearing calculation is at appointed contractual debt value, excluding inter-company balances and accounting adjustments. This is how our regulators assess our performance.

[#2] Ofwat reporting requirements on credit ratings are that water companies should report a corporate family rating where available. Only Moody's produces a corporate family rating for Yorkshire Water Services Limited and its financing subsidiaries, so that is shown here. Find more information on our credit ratings on page 38.

Please note, all of the figures included in this table relate to Yorkshire Water Services only.

We aim to keep bills as low as possible by managing customer debt, managing our financial performance, investment programmes, borrowing requirements, financial risk, and corporation and other taxes.

Ensuring affordable water services and managing customer debt
We recognise that many customers struggle with the cost of living. Our average customer bill is one of the lowest in the UK and in 2017/18 was £373, the second lowest. We increased average bills by less than the rate of inflation in 2017/18 and will cap any rises in our average bill to no more than the value of the Retail Price Index (RPI) every year until at least 2019/20.

We offer customers a range of support packages, including a 'social tariff' support scheme, Water Support. Water Support is aimed at customers whose household income is assessed as being "low" and have a bill over a set threshold (2017/18: £420). Under the scheme a customer's bill will be capped at the cost of the average Yorkshire Water bill. We have further increased the number of customers we help through our support packages, up from nearly 23,000 customers in 2015/16 to 28,853 in 2017/18.

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill. We maintained our leading approach to debt management, this cost being 3.10% of the average bill in 2017/18.

Each year, the Consumer Council for Water (CCW) survey water customers about perceived value for money. Latest results show that 76% of customers agreed our water service was "value for money", and 79% for our waste water service. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

The above performance demonstrates that we are delivering our Customer Outcome "We keep your bills as low as possible". We are committed to keeping bills low and supporting those who struggle to pay.

The following sections include information required for statutory reporting requirements, financial stakeholders and technical specialists. Further detail on these areas is available in our Annual Performance Report (www.yorkshirewater.com/ourperformance) and on our website at the references included with each section.

Managing our financial performance
Below, we explain the highlights of our financial performance, which are consistent with our business plan.

- The increase in revenue to £1,026.7m (2016/17: £1,003.1m) is largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £745.6m (2016/17: £717.3m) are in line with plan except for increased operating costs relating to the dry 2017

summer, and the severe weather conditions in March 2018; investment as part of our plan to achieve a step change in operational and customer service performance; and professional fees relating to the removal of the Cayman companies from our company structure (see page 43 for more detail).
- Exceptional costs of £8.1m are associated with operational mitigation for assets damaged in the 2015 flood for which insurance payments were received in 2016/17.
- The above movements in revenue and operating costs result in a decrease in operating profit excluding exceptional items to £281.1m (2016/17: £285.8m). Including exceptional items, operating profit totals £273.0m (2016/17: £317.3m).
- The increased depreciation charge of £285.1m reflects capital investment over the year (2016/17: £273.5m).
- Note 4 sets out a reconciliation of adjusted EBITDA of £577.1m (2016/17: £563.2m). The increase on prior year is due to the movement in income and operating costs as noted above.
- The net interest payable before exceptional items has increased to £216.9m (2016/17: £213.5m). This was a result of increases in inflation (RPI) leading to higher amounts being charged on our index-linked financial instruments, offset by increased interest income as a result of the work we are doing to manage borrowing requirements as detailed below.
- Exceptional fair valuation adjustments total a net £41.4m income in 2017/18 (2016/17: £466.6m net charge). This is largely due to the movement in fair valuation of index-linked swaps we took out in 2007/08. Please see the "Managing Financial Risk" section below for more detail. This treatment is in line with our accounting policy (note 1) and is disclosed separately due to its material size and nature.
- We are therefore reporting a profit for the financial year for 2017/18 of £74.3m (2016/17: £261.3m loss). Excluding all exceptional items detailed above, this represents an underlying profit for the financial year of £41.0m (2016/17: £173.8m). A reconciliation between this and the statutory measure can be found in note 4.
- We have revalued infrastructure assets as at 31 March 2018 in line with FRS 102 and IFRS requirements based on the value in use. This revaluation increased the asset value by £199.6m which has been reflected in the revaluation reserve (2016/17: £279.8m). Please refer to note 12 to the Financial Statements for more detail.

Delivering and governing our investment programmes
We have continued to govern the effective and efficient delivery of our investment programmes, enhancing our approach by better integrating our management of operational expenditure (opex) and capital expenditure (capex) to move towards a total expenditure (totex) approach. Our Board Investment Committee (BIC) uses delegated authority from the Board to monitor and direct our investment programmes to deliver best value for customers and the business.

Capital expenditure for 2017/18, excluding exceptional costs relating to remediation of the 2015 flood damage, is £426.7m (2016/17: 378.6m). Year three of the current five-year Asset Management Period (AMP) reports an underspend against the business plan programme of £23.4m due largely to rephasing of projects. A further £18.4m (2016/17: £8.0m) of additional capital expenditure related to the 2015 flood remediation.

Managing and governing our borrowing requirements
Treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the Group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central treasury

department on behalf of Yorkshire Water and other group companies in Kelda Group (the Group). Activities are carried out in accordance with approved board policies, guidelines and procedures.

Our operations are financed through a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised by the Group treasury department in the name of the appropriate group company and subject to relevant debt covenants. Within the restrictions required by the Whole Business Securitisation (see below), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis.

Any cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A-/A-/A3 and a short-term rating of at least A1/F1/P1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we:

- Repaid £260m outstanding on a bond at its maturity in April 2017;
- Renewed the revolving credit facility in October 2017 with a syndicate of eight banks and increased it from £490m to £560m to provide additional liquidity for the Group;
- Renewed liquidity facilities in March 2018, with seven banks, which the Group is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £320m to £279m, primarily due to actions taken in the year to reduce the Group's interest costs; and
- Terminated two finance leases, on 31 March 2018, before the start of secondary rental periods.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable by £10m for two years, £5m received semi-annually from August 2018, and to reduce net interest by £21.1m for ten years, with £10.6m received on a net basis semi-annually from August 2020.

Total borrowings, including amounts owed to group companies, were £4,909.2m as at 31 March 2018 (31 March 2017: £5,012.9m), the decrease compared to 31 March 2017 largely being due to a reduction in short-term bank loans and overdrafts. Net debt (ie: total borrowings excluding amounts owed from group companies and net of cash in hand and at the bank), was £4,101.8m at 31 March 2018 (31 March 2017: £3,773.6m), the increase compared to 31 March 2017 largely being due to a reduction in amounts receivable from other group companies. The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements.

As at 31 March 2018, Yorkshire Water's regulatory capital value ("RCV"), which is one of the critical components for setting customers' bills, was £6,446.3m (2017: £6,143.6m).

Gearing (being net debt as a percentage of RCV) is a key covenanted ratio within Yorkshire Water Financing Group's financing arrangements and levels of gearing are monitored and forecast on a regular basis. On a covenanted basis at 31 March 2018 Yorkshire Water Financing Group's gearing was 75.6% (2016/17: 76.8%). 2017/18 gearing includes £250m of funding raised during the year that was used to improve interest receivable on a swap by £19.3m per annum (conducted in June 2017, see note 6 for further details). Covenanted gearing would have been 71.7% had this transaction not taken place (ie 3.9% lower).

Gearing is also calculated on a standalone, regulatory, basis for Yorkshire Water and uses a slightly different basis of calculation. Gearing on this basis was 74.3% at 31 March 2018 (2017: 75.4%). Had the aforementioned £250m of funding raised not taken place, gearing would have been 70.4%.

Managing financial risk
The operation of the Kelda Group, and therefore Yorkshire Water treasury function, is governed by policies and procedures, which sets out guidelines for the management of interest rate risk, foreign exchange risk, exposure to fluctuations in the rate of inflation and the use of financial instruments. We actively maintain a broad portfolio of debt, diversified by source and maturity; designed to ensure we have sufficient available funds for operations. Treasury policies and procedures are incorporated within our financial control procedures.

The long-term sustainability of the company's financing is of primary importance. We frequently monitor levels of debt and associated measures, such as gearing. These are forecast not just against levels defined in our financing documents, but also against levels needed to protect our credit ratings. These take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions, not just over the current regulatory price review period, but also future price review periods. We have provided more information about our credit ratings below.

Our executive management team receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

Our operations expose us to a variety of financial risks that include the effects of changes in debt and loan market prices, inflation, liquidity, interest rates and exchange rates. Derivative financial instruments, including cross currency swaps, interest rate swaps, and forward currency contracts are employed to manage the interest rate and currency risk arising from the debt instruments used to finance our activities.

Our revenues are closely linked to the underlying rate of inflation, currently measured by the Retail Price Index (RPI), and fluctuate with changes in the rate of inflation. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, despite Yorkshire Water being profitable. This risk is mitigated by Yorkshire Water maintaining levels of index-linked debt and being a counterparty to index-linked swaps.

Interest received is based on the six-month London Interbank Offered Rate (LIBOR), and interest is paid at fixed amounts plus RPI. Movements in RPI are also applied to index-linked debt by increasing the amount to be repaid at maturity. Therefore, the impact of RPI reductions on income and Regulatory Capital Value (RCV) is mitigated by reduced interest charges and lower value of index-linked debt used in calculating gearing as a percentage of RCV.

The maturity dates of the company's portfolio of index-linked swaps ranges from 2026 to 2063. During the year the terms of a proportion of these swaps were amended as follows:

- In June 2017, Yorkshire Water completed a transaction to restructure the terms of swaps with a notional value of £147.9m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £19.3m per annum for fifteen years, with £9.7m receivable semi-annually at a debt costs of £250m. The first amount of £9.7m was received in August 2017.

- In December 2017, Yorkshire Water completed a transaction to restructure and extend swaps with a notional value of £225.5m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £10.4m per annum for ten years, with £5.2m receivable semi-annually. The first amount of £5.2m was received in February 2018.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable by £10m for two years, £5m received semi-annually from August 2018, and to reduce net interest by £21.1m for ten years, with £10.6m received on a net basis semi-annually from August 2020.

With long-term expectations of LIBOR at historically low levels, the swaps held by the company gave rise to a negative fair value at 31 March 2018 of £1,754.1m (31 March 2017: £2,033.0m). See note 18 of the Statutory Financial Statements for more details on the financial derivatives held by the company.

Other financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Currently, wholesale energy costs are fixed until 2020 due to action taken in 2015/16.

In addition to the above financial management measures, our insurance team also works to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

Credit ratings

Yorkshire Water Services Limited and its financing subsidiaries have credit ratings assigned by three rating agencies. The latest published ratings are as follows:

Credit rating Agency	**Class A rating**	**Class B rating**	**Corporate Family Rating**	**Date of publication** *(latest available)*
Fitch	A (stable)	BBB+ (stable)	N/A	December 2017
Moody’s	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	December 2017
S&P	A- (stable)	BBB (stable)	N/A	June 2017

On 2 June 2017 S&P affirmed the Yorkshire Water Financing Group’s Class A rating of “A-“ and Class B rating of “BBB” both with a stable outlook.

On 4 July 2017, Fitch affirmed the Yorkshire Water Financing Group’s Class A rating of “A“ and Class B rating of “BBB+” both with a stable outlook.

On 4 July 2017, Moody’s affirmed the Corporate Family Rating of Yorkshire Water at “Baa2” and affirmed the Yorkshire Water Financing Group’s Class A and Class B rating at Baa1 and Ba1 respectively, while moving the associate outlooks for those ratings from negative to stable. Moody's stated that their rationale for the change in outlook was due to their view that Yorkshire Water's exposure to a persistently lower interest rate environment has reduced in light of the measures that management and the company's shareholders have been taking and will continue to work on through the current regulatory period.

On 19 December 2017, Moody's affirmed its ratings, as noted above, but moved the associated outlooks from stable to negative. This change in outlook followed Ofwat's publication of its final methodology for the 2019 price review, including guidance that the allowed cost of capital will fall by around 0.8% for 2020 to 2025. Moody's affirmation had considered the impact of this change on Yorkshire Water; whilst taking account of shareholders' willingness to support credit quality, management's actions to reduce gearing and the time available to adapt prior to the start of the next review period in April 2020.

On 22 May 2018, Moody's issued an update for the water sector following an Ofwat consultation published on 26 April 2018. This consultation included finance cost sharing proposals particularly relevant to companies with gearing in excess of 60% of RCV. Whilst Moody's amended the outlook for four UK water groups from stable to negative, there was no change to the Corporate Family Rating of Yorkshire Water or the Yorkshire Water Financing Group's Class A and Class B rating.

The credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water Services Limited and the other companies within the Yorkshire Water Financing Group can be found within the "Investor Centre" section of the Kelda Group website at www.keldagroup.com.

Corporation and other taxes

We are committed to acting with integrity and transparency in all tax matters. Our tax strategy and policies require that we:

- Comply with both the letter of UK tax law and its application as it was intended.
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law.
- Do not enter into transactions that have a main purpose of gaining a tax advantage.
- Make timely and accurate tax returns that reflect our fiscal obligations to Government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for non-tax driven decisions and all active companies in the Kelda Group are wholly and exclusively resident for tax purposes in the UK. We explain our corporate structure below.

We work openly and proactively with HM Revenue & Customs (HMRC) to maintain an effective working relationship. Each year we provide our tax returns to HMRC and they review our position. In cases which are complex or open to interpretation we work proactively with HMRC to determine the appropriate tax position.

Yorkshire Water's Board has agreed to adhere to the tax strategy and policies adopted by the Kelda Group of which Yorkshire Water is the principal subsidiary. The Kelda Group tax strategy provides further detail on the Group's approach to tax risk management and governance arrangements, and is publicly available at:
www.keldagroup.com/corporate-responsibility/managing-corporate-responsibility/our-approach-to-corporate-responsibility.aspx

Corporation tax
Our tax charge of £23.2m (2016/17: credit of £101.5m) is due to:

- A charge of £15.1m regarding payments to other Kelda Group companies to compensate them for the surrender of tax losses to Yorkshire Water. We use these tax losses to reduce our taxable profits (2016/17: £nil); and
- A charge of £8.1m in relation to the non-cash movement in our deferred tax provision (2016/17 credit of £101.5m).

The deferred tax provision represents the accumulated timing difference between accounting profits and taxable profits calculated at the prevailing rate of corporation tax. Differences due to timing (e.g. accounting depreciation versus tax depreciation, known as capital allowances) will reverse in the future so the provision becomes taxation payable. Other differences are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2017/18 and 2016/17 movements in deferred tax are due to:

- timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation; and
- the effects of changes in the fair value liability of the Company's index-linked swap portfolio (explained below). Increases or reductions in the fair value liability of the Company's index-linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those index-linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid. The increase in the fair value of the index-linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the interest is paid and therefore creates a timing difference. The fair value of the index-linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

Yorkshire Water's effective tax rate for the year ended 31 March 2018 was 23.8%, calculated by comparing the profit before tax of £97.5m and total (current and deferred) tax charge for the year of £23.2m. This is a higher effective tax rate, i.e. the Company has a higher tax charge for the year than if simply applying the statutory corporation tax rate of 19%, and is mainly due to non-deductible depreciation on capital assets that do not qualify for capital allowances and prior year adjustments to the company's deferred tax provision.

No material tax uncertainties have had to be considered in arriving at our tax provision for the year.

Our total tax contribution
Yorkshire Water makes a significant contribution to the UK Exchequer each year through payment and collection of a wide range of taxes, which we show in the breakdown on the following page.

	2017/2018 £m	2016/2017 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	55.4	60.6
Employer's National Insurance Contributions (NICs)	9.6	8.9
Carbon Reduction Commitment and Climate Change Levy	6.3	6.9
Abstraction licences and direct discharges	10.3	10.1
Fuel duty	1.5	1.3
	83.1	**87.8**
Taxes, duties and rates included in operating costs, collected on behalf of employees		
Employee's Pay As You Earn (PAYE)	14.4	13.4
Employee's NICs	7.8	7.2
	22.2	**20.6**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**105.3**	**108.4**
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	14.6	13.2
	14.6	**13.2**
Total tax contribution	**119.9**	**121.6**

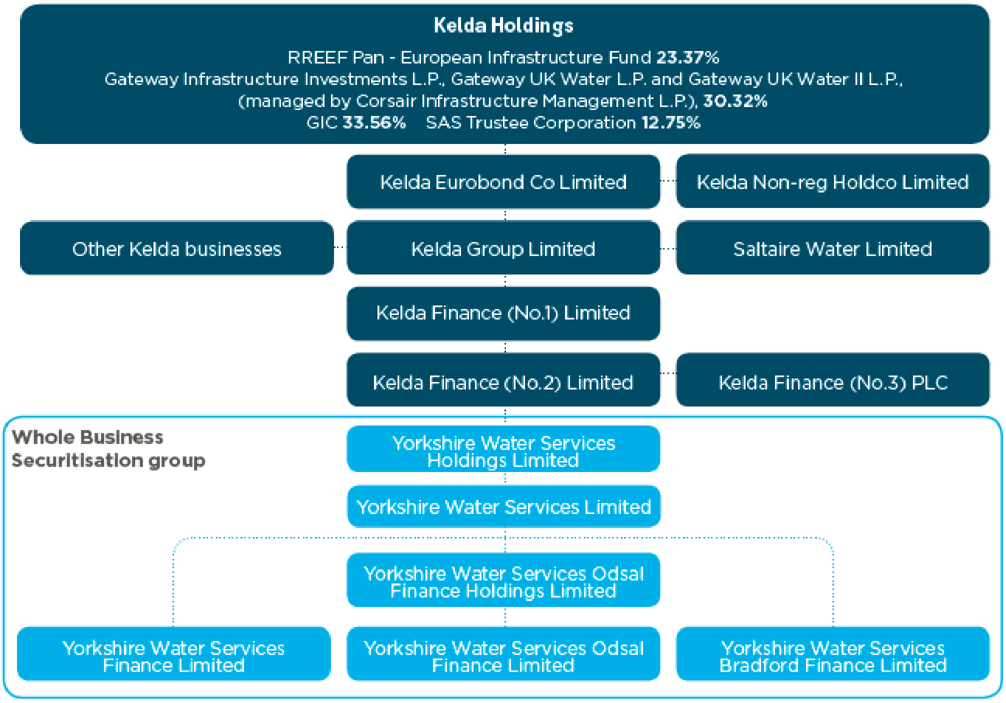
Whilst this information relates to Yorkshire Water only, further detail of our corporate taxation and deferred tax accounting for the group are set out in note 8 to the Financial Statements. A summary of the Kelda Group tax strategy and policies is available at: www.yorkshirewater.com/tax.

Our corporate structure

Yorkshire Water Services Limited is part of the Kelda Holdings Limited group ("Group") (see diagram below). All companies are wholly owned unless stated otherwise. Details of the Group's shareholders and capital structure are also published on the Group's website, found at this link: www.keldagroup.com.

Kelda Group corporate structure at 31 March 2018

The diagram below shows a summary of the active companies within the Kelda Group. We have condensed this structure to remove our inactive companies which exist for legacy reasons but are no longer in use.



Summary of Group company activities

The details and activities of the companies within the condensed group structure chart above are as follows:

Kelda Holdings Limited – the ultimate parent undertaking for the Group. Whilst the company is incorporated in Jersey, it is wholly and exclusively resident for tax in the UK. The company was incorporated in Jersey because Jersey law allows greater choice than the UK as to the way distributions can be made to shareholders.

Kelda Eurobond Co Limited – a Group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. It was incorporated for the purposes of issuing bonds (i.e. corporate debt) as part of the acquisition of the shares of Kelda Group Limited (formerly Kelda Group Plc) by the shareholders in 2008. This bond debt meets the eligibility requirements of the "quoted Eurobond exemption". All bond debt issued by Kelda Eurobond Co Limited is held by the shareholders of Kelda Holdings Limited.

The bonds issued by Kelda Eurobond Co Limited are listed on The International Stock Exchange in the Channel Islands (TISE). TISE is regarded by the UK's HMRC as a recognised stock exchange for the purposes of the quoted Eurobond exemption. Listing on TISE was chosen rather than the London Stock Exchange (LSE) for ease of administration; since the bonds in question are not traded the greater administrative requirements imposed by the LSE are not necessary.

Kelda Non-reg Holdco Limited – a Group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company's primary activity is to provide finance for Kelda Group's businesses other than Yorkshire Water.

Kelda Group Limited – originally the ultimate holding company in the Group and formerly a public listed company, Kelda Group Plc. It was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK. Kelda Group Plc's shares were acquired and the company de-listed in February 2008.

Saltaire Water Limited – this was the acquisition vehicle for the purchase of Kelda Group Limited's shares (formerly Kelda Group Plc) in February 2008. The shares of Kelda Group Limited are now held by Kelda Eurobond Co Limited. The company was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

Other active Kelda businesses

The following Group companies operate in the UK and are wholly and exclusively resident for tax in the UK:

- **Kelda Water Services Limited (KWS)** – operates water and waste water contracts across the UK.
- **Three Sixty Water Limited** – offers water and waste water retail and added value services to non-household customers across the UK. This business is currently being actively marketed for sale.
- **KeyLand Developments Limited (KeyLand)** – manages the Group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management Limited (Loop) –** delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- **Kelda Transport Management Limited –** provides operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

Following the strategic review conducted during the year ended 31 March 2017, the majority of non-regulated businesses outside of Yorkshire Water have been divested and this is expected to complete by the end of December 2018. This action has enabled us to enhance the leadership of the Yorkshire Water business by removing potential distractions that arise from other parts of the group. This will allow greater simplification of the Kelda group structure.

Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC – these companies were incorporated to issue debt and raise loan financing facilities outside of the Whole Business Securitisation (WBS) group, described below. They are all incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.

Yorkshire Water Services Holdings Limited – incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company is the immediate holding company of Yorkshire Water Services Limited.

Yorkshire Water Services Limited - incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in Kelda Group, providing water and waste water services to the Yorkshire region. This is the company to which this Annual Report and Financial Statements publication refers.

Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited, Yorkshire Water Services Finance Limited – companies within the WBS described below.

Whole Business Securitisation

Yorkshire Water established a financing structure known as a Whole Business Securitisation (WBS) in 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case.

This WBS works by placing a protective ring-fence around Yorkshire Water's business which includes the way it operates, the way it trades with other group companies outside the WBS, and the way it finances itself. The protections include limits on borrowings, dividends and the ability to lend money to other Kelda companies. The protections also require profits to more than cover the amount of interest that Yorkshire Water pays.

Due to technical reasons applicable at the time that our owners purchased the Kelda Group and set up the WBS, it was necessary to establish three companies in the Cayman Islands ("Cayman companies,") in order to raise debt on the listed bond markets. These companies are:

- Yorkshire Water Services Bradford Finance Limited (issues new corporate debt);
- Yorkshire Water Services Odsal Finance Limited (issued legacy corporate debt);
- Yorkshire Water Services Odsal Finance Holdings Limited (a non-trading, holding company).

The technical requirements for these Cayman companies are no longer relevant but the cost of unwinding this structure was historically considered prohibitive. All three Cayman companies are wholly and exclusively resident for tax in the UK and file their tax returns only with HMRC. This means that any profit or loss made by these companies is subject only to UK tax.

Yorkshire Water has committed to taking the necessary steps to remove the Cayman companies from the WBS and for future debt to be raised by a new company incorporated and tax resident in the UK. The necessary consents for these changes from HMRC, Ofwat and financial creditors within the WBS were obtained in May and June 2018. These changes are in the process of being implemented, and will be completed during 2018.

Yorkshire Water Services Finance Limited issued legacy corporate debt is incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

Kelda Water Services Limited (KWS)

Following a strategic decision by the company to seek to dispose of the non-regulated businesses, the sale of eight of the KWS businesses were completed in the reporting period. The details of each sale are as follows:

Entity Sold	Date of disposal	Profit/(loss) on disposal
Kelda Water Services (Alpha Limited) & Dalriada Water Limited	20 November 2017	£40.6m
Kelda Organic Energy Limited & Kelda Organic Energy (Cardiff) Limited	19 December 2017	£2.3m
Alauna Renewable Energy Limited & Kelda Organic Energy (Edinburgh) Limited	16 January 2018	(£6.8m)
Kelda Water Services (Defence) Limited & Kelda Water Services (Estates) Limited	15 March 2018	(£0.2m)

As part of the sales process those businesses that were sold during the year were operated on a locked-box account basis. As a result, there was no benefit or detriment to the company of their financial performance in the year other than the proceeds of the sales. The respective locked box account dates for those businesses that were sold are featured in the table above.

£28.2m, being the profit on disposal, net of £7.7m legal costs, of these entities has been recorded as an exceptional item, the details of which can be found in note 5.

The performance of the significant entities within the Kelda Water Services group is presented below:

KWS Grampian (presented as held for sale) continued focusing on safe operations and asset maintenance, however, financial performance was worse than planned. The loss for the financial year amounted to £13.4mk (2016/17: loss of £8.9m). The adverse results were predominantly driven by higher than expected contractual compliance failures at Nigg. The contractual compliance failures were primarily due to the lack of lamella availability from April to December 2017 which was the result of a one-off refurbishment project. This entity is currently presented as held for sale, more details of which can be found in notes 9 and 16.

Aberdeen Environmental Services Limited (presented as held for sale) generated a profit for the financial year of £4.6m (2016/17 £3.9m), largely as a result of increased turnover. The entity is currently presented as held for sale, more details of which can be found in notes 9 and 16.

Kelda Energy Services (Old Whittington) completed its first full year of service, which contributes to the improvement of the results year on year. The loss for the financial year amounted to £0.1m (2016/17 loss of £0.2m). The loss in the current year is driven by interest payable to group undertakings. The results of this entity are presented within continuing operations.

Loop Customer Services Management Limited (Loop)

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

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

Loop also contributes to the delivery of Yorkshire Water's customer objectives "We keep your bills as low as possible" and "We provide the levels of customer service you expect and value" through the 6 associated performance commitments.

In 2017/18 the Billing quality of service as measured by SIM qualitative survey was 4.70 out of 5, the highest level within the industry.

Loop's approach to support for vulnerable customers continues to be industry leading. The Performance Commitment for the number of customers helped to pay their bill was exceeded with financial support being given to 28,853 customers to the value of £7.8m.

The performance commitment on bad debts as a ratio of average bill was also exceeded at 3.08% compared to a target of 3.16%. This means Loop is effectively keeping the cost of collection as low as possible.

The Non-Household Retail market opened on 1 April 2017 and Loop are contracted by Yorkshire Water Business Services to provide customer service support to Non Household customers in the market.

The development framework for all employees has been embedded, giving structure to the reward and the development of our colleagues. Loop has retained Great Place to Work accreditation from Best Companies, which was based on colleague feedback and the Investors in People Bronze standard. This has been supported by strong Kelda Voice engagement scores during the year.

Engaging colleagues has been a key initiative and will remain a focus in the coming year. Health, safety and wellbeing performance has continued to improve. Loop have supported the Kelda Life Saving Rules programme and several well-being projects have been implemented over the year, ensuring that health, safety and wellbeing is at the heart of the company culture.

Keyland Developments Limited (Keyland)

The property market remained buoyant during 2017/18, particularly in the residential and industrial sectors. Consequently, Keyland's activities centred on bringing forward residential and industrial sites through the statutory planning system to meet market demand.

The Keyland business continued to focus on maximising the value of property assets released by Yorkshire Water, with the current year's results being derived primarily from the sale of two larger sites for residential development. In addition, Keyland has continued to secure further opportunities by working with third-party landowners seeking to bring forward potential development sites.

Keyland continued to make progress on a number of joint venture projects, which control strategic residential development sites around Leeds.

Keyland's primary operating strategy continued to be to maximise value from properties and land released by Yorkshire Water.

The main risks to Keyland were:

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

Looking forward, Keyland will continue to concentrate on securing an adequate supply of sites from Yorkshire Water, whilst also promoting sites on behalf of other major landowners.

Kelda Transport Management

Kelda Transport Management Limited was incorporated on 18 November 2016 and has been operational since March 2017. The principal activity of the Company is to comply with the Goods Vehicles (licencing of operators) Act 1995 to demonstrate continuous and effective management of two operating licences (Yorkshire and North-West England) for Large Goods Vehicles (LGV) allowing Yorkshire Water Services Limited ("YWS") to operate LGV whilst promoting operating efficiencies.

As per the undertakings of the company's operating licence, all legal and statutory documentation have transferred from YWS. The company can demonstrate independence of YWS. Three appointed transport managers are in place with two appointed board directors supported by a company secretary.

Both operating licences are recording green status (full compliance) within the Traffic Commissioners Office OCRS (Operators Compliance Record Score) In January 2018 the company achieved the DVSA (Driver Vehicle Standard Agency) Earn Recognition Accreditation and the FTA (Freight Transport Association) Truck Excellence for compliance and management processes within the company of its operating licences. Following a compliance platform achievement within 2017, a review is underway for the business development opportunities of the company by its directors.

Three Sixty Water Limited (TSW) and subsidiaries, collectively (TSWG)

The UK Water Act 2014 (UKWA) established the framework to create a market that allows 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater services from April 2017. Non-Household Retail (NHHR) services include things like billing and customer services. The Group has indicated its intent achieve a withdrawal from NHHR services.

A specific requirement of the UKWA was that Yorkshire Water was required to achieve a complete separation of its NHHR activities from its wholesale activities for its incumbent customers from 1 April 2017. It has achieved this by establishing a separate provider (Yorkshire Water Business Services- YWBS), with distinct and separate governance and management, within Yorkshire Water for its incumbent NHHR activities. In order to ensure appropriate separation of management and control specific activities, including management of customer service, customer retention, billing, cash collection, debt management and supply payment have been outsourced to TSG.

TSWG comprises three elements:

- TSW, which has a Water and Sewerage Services License (WSSL) obtained under the UKWA, has a small number of customers previously held by the Group under the large user provisions. Additionally it provides shared services to its two subsidiaries. TSW is not seeking any new customers under its WSSL.

- ThreeSixty Water Services Limited (TSWS), which provides NHHR services to a small number of Scottish customers under a Water Supply License (WSL) obtained from the Water Industry Commission for Scotland. TSWS also provides a range of non-regulated Added Value Services (AVS), such as flow metering, to customers in the Yorkshire Water service area and elsewhere in the UK. TSWS is not seeking any new customers under its WSL and is no longer marketing AVS.

- ThreeSixty Water Yorkshire Limited (TSWY), which provides customer service, customer retention, billing, cash collection, debt management and supply payment services to YWBS. In providing these services TSWS manages support service provision by other group companies, such as Loop, as well as providing management resource and specialist skills.

During the year TSWY enabled the effective and on time separation of the NHHR business within Yorkshire Water, and put in place all required governance, management and service structures on behalf of YWBS. TSW did not actively trade in the market as its license only became effective during the year, on 1 April 2017, and therefore functioned only to provide shared services to TSWY and TSWS. TSWS maintained and grew its WSL customer base but development of the AVS market was lower than expected and led to the decision to suspend marketing.

As part of Group strategy to focus on wholesale and household retail activities the Group is working to withdraw from the NHHR market. As the sale of the business is considered probable within the next 12 months, TSW, its subsidiaries and the NNHR element of the Yorkshire Water Services business have been presented as held for sale in the financial statements.

Group Financial Performance
Earnings before interest tax depreciation and amortisation (EBITDA) is considered by shareholders and directors to be the key measure of the Group's profitability.

Key financial performance indicators

	Year ended 31 March 2018	Year ended 31 March 2017
	£m	£m
Operating profit from continuing operations	288.1	311.2
EBITDA from continuing operations excluding exceptional items (see note 4)	583.7	574.6

Operating results for the year

The results for the year show an operating profit from continuing activities excluding exceptional items and share of associates and joint ventures profit after tax of £272.9m (2016/17: £279.7m), largely generated by Yorkshire Water's regulated water business. Note 4 to the financial statements shows the profit split by segment.

Accounting policies

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

Revaluation of property, plant and equipment

The Group's infrastructure assets are carried at valuation. The directors reviewed the valuation of infrastructure assets at 31 March 2018 and concluded that a revaluation uplift of £199.9m, before deferred tax and adjustment for historical depreciation, was required. This has been recognised in other comprehensive income in the year ended 31 March 2018.

Corporation and other taxes
We are committed to acting with integrity and transparency in all tax matters. Our tax strategy and policies require that we:

- Comply with both the letter of UK tax law and its application as it was intended.
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law.
- Do not enter into transactions that have a main purpose of gaining a tax advantage.
- Make timely and accurate tax returns that reflect our fiscal obligations to the Government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for non-tax driven decisions and all active companies in the Kelda Group are wholly and exclusively resident for tax purposes in the UK.

We work openly and proactively with HM Revenue & Customs (HMRC) to maintain an effective working relationship. Each year we provide our tax returns to HMRC and they review our position. In cases which are complex or open to interpretation we work proactively with HMRC to determine the appropriate tax position.

The Kelda Group tax strategy summarises the Group's approach to tax risk management and governance arrangements, and is publically available at:
www.keldagroup.com/corporate-responsibility/managing-corporate-responsibility/our-approach-to-corporate-responsibility.aspx

Corporation tax
Our corporation tax charge on continuing activities of £9.5m (2017: credit of £114.7m) is mainly due to the non-cash movement in the deferred tax provision.

The deferred tax provision represents the temporary differences between the carrying value of assets/liabilities in the Group's accounts and their tax carrying value in tax returns. This is calculated at the prevailing rate of corporation tax. Differences due to timing will reverse in the future so the provision becomes taxation payable. Other differences are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2017/18 and 2016/17 movements are largely due to the effects of changes in the fair value liability of Yorkshire Water's index-linked swap portfolio (explained below). Increases or reductions in the fair value liability of Yorkshire Water's index-linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those index-linked swaps in future years.

Changes to the fair value of the liability are not tax deductible or taxable under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid.

Whilst the fair value of the index-linked swap portfolio has a carrying value in the Group's accounts, there is no associated tax base as changes in the fair value are not tax deductible. The fair value of the index-linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

A full reconciliation of the Group's tax credit for the year is contained in note 8 to the financial statements.

The Group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & Custom's agreement of the basis on which the Group's tax returns are filed. In assessing these tax uncertainties, management is required to make judgements, evaluating the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that will be necessary to provide. The nature of the Group's uncertain tax positions can relate to complex tax legislation that is can be open to interpretation. Original estimates are always refined as additional information becomes known. Any uncertain tax positions are assessed using internal expertise, experience and judgement together with assistance and opinions from professional advisors. There are no current material uncertainties.

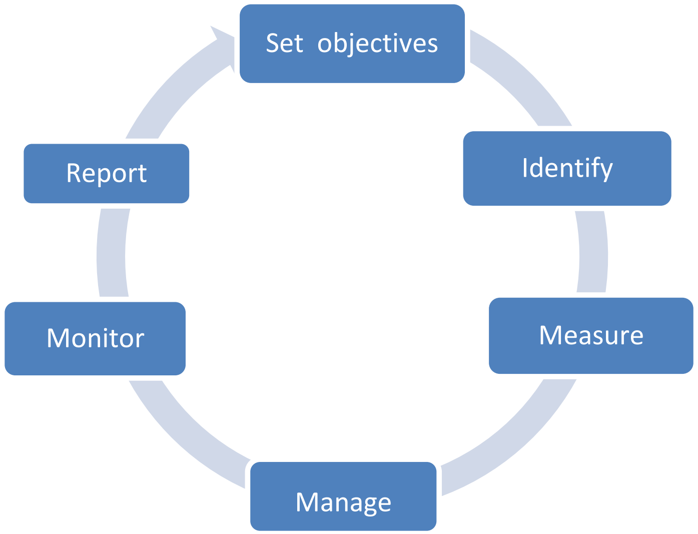
Identifying and managing our risks

The Kelda Group provides a critical service to the 5.4 million people who live in Yorkshire, the millions of people who visit each year as well as 140,000 businesses. Effective risk management is central to ensuring we meet our customers' expectations all day, every day. Our framework for identifying and managing risk to acceptable levels is embedded in our normal business process and culture.

Our approach to risk management

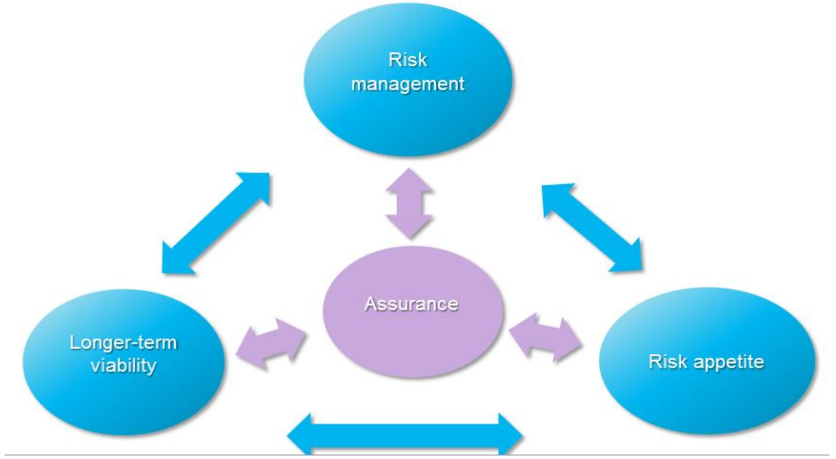
Our operating environment is subject to constant and sometimes rapid change. We must be able to respond to this change to maintain customer service and achieve our strategic goals.

Our risk management approach is managed at Kelda Group level and applies to all activities, decisions and processes.



Set objectives	Identify	Measure	Manage	Monitor	Report
The Board sets our strategic goals and our corporate risk appetite. We tolerate a low residual risk.	Risk identification is embedded in all our operational management systems.	A standard risk scoring matrix ensures consistent measurement.	We tolerate a low residual risk with a strong control environment.	Coordinated three lines of assurance assess the effectiveness of controls.	We have a monthly risk reporting cycle to Risk Committee and Board.
We balance the cost of control with risk appetite and the long-term viability of the business.	Risk owners determine the tolerable level for each risk.	Risk champions aid escalation and consolidation.	Risk action plans manage risk to tolerance.		Risk reports inform business planning and resourcing decisions.

We balance the cost of control with the risk appetite and the long-term viability of the business.



Corporate risk appetite framework

A clearly defined risk appetite framework is aligned to our business strategy and approach. During 2017/18 the Board set a cautious approach to risk taking. This means we tolerated a low residual risk which is well mapped. There is a strong control environment with a balance of preventative, detective and corrective controls captured in documented processes. Deviations from these processes are tolerated only if formally agreed and the risk captured.

We acknowledge that as we seek to achieve our Upper Quartile ambitions, delivering innovative solutions to working efficiently, we may need to reflect a more open risk appetite in future.

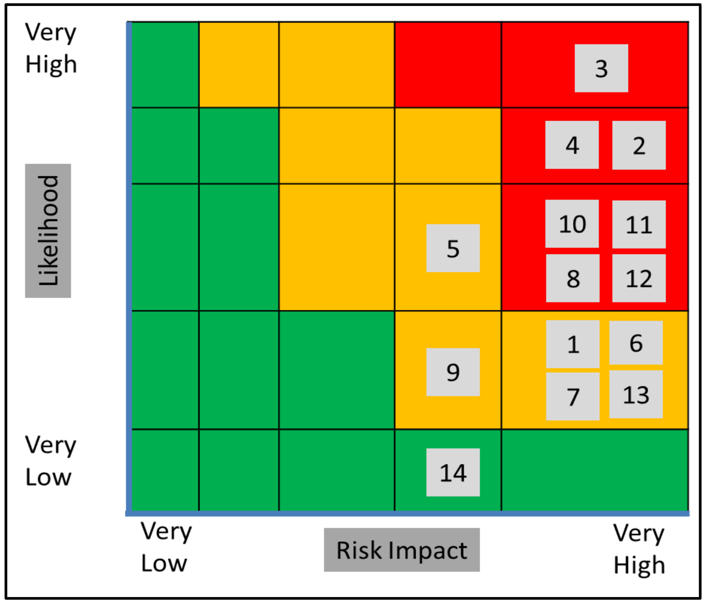
Impact	Appetite
Health and safety	Kelda Group and Yorkshire Water recognise the inherent water industry health and safety risk and are only prepared to tolerate risks that have been reduced to levels as low as reasonably practicable in line with Health and Safety Executive (HSE) guidance.
Value	Kelda Group and Yorkshire Water have no tolerance of any risk that may result in a breach of covenanted ratios. They will maintain headroom agreed by the Board.
Service	Kelda Group and Yorkshire Water will achieve performance that results in no net financial loss over the AMP and maintains their cautious appetite on reputation. Kelda and Yorkshire Water will not tolerate risk that results in an annual reduction in SIM score greater than two points.
Reputation	Kelda Group and Yorkshire Water want to be best in class, respected across the industry and region. They will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives.
Compliance	Kelda Group and Yorkshire Water will be compliant, but will tolerate risks that have been reduced to levels as low as reasonably practicable. They will only tolerate one-off, planned breaches of regulation in the pursuit of guaranteed improvement in compliance.
People	Kelda Group and Yorkshire Water work hard to create the right environment, while maintaining good relations through robust consultation and engagement with all their colleagues.

Our principal risks at March 2018

Our principal risks are those individual or aggregated risks which have the potential to threaten viability or take the business significantly beyond risk appetite. The increased corporate ambition set out in our Upper Quartile Plans inherently increases the risks to the business. The number of Principal risks being actively managed by the Board has increased from 10 in March 2017 to 14 in March 2018. The new risks are:

- Leakage: this reflects our focus on achieving a stepped change in reducing leakage
- Business strategy and change: this recognises the level of organisational transformation the Board expects in the next two years
- Political, Legal and Regulatory change: this combines escalating risks to reflect the changes in our external political environment
- Open and transparent governance: this reflects our AMP7 ambition to be a global benchmark for openness and transparency.

#	Principal Risk Summary	*March 2017*	March 2018
1	Public and colleague safety		
2	Enough clean, safe drinking water		
3	Leakage		
4	Protect our environment – incl. Flooding		
5	Climate Change and Resilience		
6	Customer and Stakeholder trust		
7	Financial Sustainability		
8	Security & Cyber resilience		
9	Talent, culture & succession		
10	Organisational Change		
11	Data Protection and Privacy		
12	Political, Legal and regulatory change - Brexit, Water Sector Reform, Nationalisation		
13	New Market Implementation and competition		
14	Open and Transparent governance	New	



Assurance and oversight of risks

Our integrated assurance approach provides management with a clear view on whether the control framework effectively mitigates risk to the accepted level. Our Risk and Assurance teams work together across the three lines of assurance to ensure that there is adequate, proportionate coverage across the whole control environment, including all corporate risks, with a robust level of independent testing. The outcome of from the various levels of the integrated assurance framework is reported to the risk owners and the relevant Committees to support inform decision making. It helps senior managers understand our true risk profile, current levels of control and increasingly the culture in our business.

A summary of our principal risks

Principal risk	Change	Customer Outcomes	Treatment plans	Assurance
1. Public and colleague safety We may fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners, leading to harm.	This risk has been actively managed through the occupational health and safety improvement programme, the focus on asset and process safety and the embedding of corporate policy and procedures linked to the life-saving rules.	We provide you with water that is clean and safe to drink.	• ISO 18001 certified OH&S Management System is supported by a suite of policies and management procedures. • OH&S improvement programme: 8 work streams driving a stepped change in our assets and practices. • 10 Life Saving Rules have been rolled out across the whole business. • OH&S Fair Culture training for all colleagues, to embed a dynamic approach to learning and improving the safety of our processes. • Board Safety, Health and Environment Committee (SHE) monitors performance to target using a detailed scorecard. • The refreshed OH&S strategy and	SHE committee oversees the management of health and safety risks. Internal Audit test the effectiveness of second line assurance. External auditors test ISO 18001 compliance. OH&S specialist team and Asset Integrity team test on-going compliance with good practice policy and procedures through a coordinated programme of inspections and audits. Delivery of the OH&S Improvement programme is assured by the Programme Management Office.

			supporting structure is embedding of best practice health, safety and well-being policies and procedures.	
2. Enough clean, safe drinking water We supply sufficient clean, safe water to meet the demand of Yorkshire consumers each day.	This risk has reduced due to the impact of sustainable improvements we have delivered through capital schemes. We continue to monitor the impact of the weather on water supply daily and use our grid system and abstraction permits to manage this risk.	We provide you with water that is clean and safe to drink.	• The flexible grid network. • Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply. • Drinking water safety planning. • Asset operation and maintenance plans available and followed for strategic assets.. • ISO 9001 and 14001 certified operational policies and procedures are followed. • On-going resource and asset availability monitoring and response. • Engineering Reliability programme to support proactive maintenance.	External auditors test and certify ISO 9001 and 14001compliance and assure our outturn performance Internal audit tests the design and operation of control framework. The independent water quality sample inspection regime test. Service delivery compliance team assure the policies and procedures and test compliance. The asset integrity team assure the asset operation and maintenance plans. The capital programme PMO assures capital investment.
3. Leakage We may not achieve our short and medium-term objectives to reduce our leakage.	We have separated this from "Enough safe, clean drinking water" to reflect the business focus on achieving stretched improvement in our performance over the next two years.	We make sure you always have enough water.	• ISO 9001 and 14001 certified operational policies and procedures are followed. • Leakage management plan and monitoring. • Real time data analysis to support targeted leakage resolution.	External auditors test and certify ISO 9001 and 14001compliance and assure performance outturn Internal audit tests the design and operation of control framework Service delivery compliance team provide assurance that process and procedures are followed.

			• Increased investment in new ways of working and resources to find and resolve leaks.	
4. Protect the environment We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we rail to manage our substantial land holdings to minimise our carbon impact.	This risk has reduced due to our sector leading carbon management and innovation programmes. We continue to learn from pollution events to improve the impact of our discharge to the water environment.	We protect and improve the water environment. We take care of your waste water and protect you and the environment from sewer flooding.	• ISO 9001 and 14001 certified environmental and operational policies and procedures are followed. • Pollution incident reduction plan. • Land, coast and river management programmes. • Bio-resources plan. • Asset operation and maintenance plans available and followed for strategic assets. • Investment programmes in waste water treatment, networks and bathing waters. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives are embedded.	External auditors test and certify ISO 9001 and 14001compliance and assure performance outturn. Internal audit tests the design and operation of control framework. Service delivery compliance team provide assurance that process and procedures are followed. The asset integrity team assure the asset operation and maintenance plans. The capital programme PMO assures capital investment.
5. Climate change resilience We may fail to plan ahead to ensure that we can maintain essential services into the	We have clarified our 25-year strategy and are developing frontier plans, optimising innovative	All Outcomes	• The Business continuity team are leading the introduction of BS65000 compliance to embed resilient policies and procedures across the business.	External auditors are supporting the achievement of the BS compliant policies and procedures. Internal audit tests the design and

future fail to deal with the impacts of population growth, climate change and extreme weather conditions.	partnership solutions.		• Climate change strategy and WRAP. • Investment programme improving water efficiency and flood risk management. • Bio-resources plan improving renewable energy generation. • Innovation programme led by Asset Management is introducing energy efficient technology, • Insurance. • Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working.	operation of the control framework The capital programme PMO assures capital investment. The Asset strategy and Planning team assures the design and build of assets meets our future needs and quality standards.
6. Customer and stakeholder trust We do not consistently meet the expectations of our customers, by failing to deliver on our commitments.	We continue to consult our customers to understand what they expect and prioritise the quality of service delivery.	We provide the level of customer service you expect and value.	• Customer forum and online Customer Panel consultation drives our strategy and plans. • Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes. • Our operational policies and procedures align to the achievement of customer service objectives. • The company monitoring framework ensures we report clearly, openly accurately with our customers.	The Corporate Responsibility Committee oversees the management of risks to customer service. External auditors test compliance with our customer service policies and procedures. Internal audit tests the design and operation of the control framework. Data analytics provides live assurance over compliance with policies and procedures. Regulation, Service Delivery and

			• Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield and Beverley	Loop assurance teams test compliance with agreed policy and procedure.
7. Financial sustainability We fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience.	In addition to strong business as usual financial controls, restructuring programmes are delivering improvements in our financial resilience, thereby reducing this risk.	We keep your bills as low as possible.	• The annual business plan and budget is set in the context of five-year Blueprint plan. • Finance Business Partners provide consistent budget monitoring through the year. • The Board Investment Committee oversee all capital expenditure in line with the approved five-year plan. • The financial policies, procedures and control framework are set out in the Corporate Governance manual. • Financial restructuring programmes are providing headroom, to support resilience. • Arrangements are in place to support customer affordability and managing customer debt. • The General IT control framework automates and embeds financial controls including the segregation of duties and access.	Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte. The Financial Governance Group assure financial regulations, standards and procedures. The Loop assurance team and Governance and compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management and commercial and procurement controls. Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.

8. Security and cyber-resilience We may fail to keep our people, assets and information secure.	We recognise that the security threat is ever present and is volatile. We continue to strengthen our physical, information and cyber controls and response plans and have improved security culture and awareness.	We provide the level of customer service you expect and value.	• The security forum oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security. • Our information security management procedures are ISO27001 compliant • The General IT control (GITC) framework automates and embeds security controls, particularly over access. • A range of physical security controls are in place across all our sites. • There is an on-going training, development and communication programme for all colleagues to improve security culture and compliance. • A range of information and cyber security projects are further improving the control environment, to achieve GDPR, NISD and other external standards.	External financial auditors test and report on our GITC. Internal audit, using co-source expertise, tests the design and operation of the control framework. The Security Steering Group oversees compliance with policies and procedures. ISO 27001 compliance is monitored through Information Security team. External expertise is used to assure the adequacy of policies and procedures and test compliance. Compliance is monitored by technical specialist teams, using data analytics and real-time assurance techniques. Data Protection Officer is overseeing development of GDPR compliant policies and procedures, including inspection programme.
9. Talent, culture and succession Our plans may fail to ensure we have the talent and culture to achieve our	This risk is unchanged as we develop our culture, succession plans and skills to respond	All Outcomes	• Our dedicated HR team set policies and procedures, which are included in the Corporate Governance manual • The responsible leaders' framework	Internal audit tests the design and operation of the control framework and cultural alignment. Our Speak up (whistleblowing) policy

objectives both now and in the future.	to our new ambitions and improve our agility.		sets core and functional competencies, achievement monitored through annual performance management cycle. • We have a company-wide approach to succession planning, to identify and sustain our critical skills. • Our management and corporate development programmes improve awareness of controls, support our learning culture helping achieve future objectives. • Our industry leading approach to incentives and reward is overseen by the Remuneration Committee	allows colleagues to raise concerns to be investigated directly. Our Kelda-wide colleague engagement survey provides assurance over colleague trust and culture. The HR team use data analytics to test compliance with HR policies and assure our capacity and capability.
10. Organisational change We may fail to achieve the	This is a new risk to reflect the extent of our ambitions and the organisational	We keep your bills as low as possible	• Kelda Management Team, led by the Director of Transformation, oversees the delivery of the portfolio of change,	Internal audit tests the design and operation of portfolio and programme management controls.

transformation required to deliver our customer expectations.	transformation required to achieve them.		prioritising resource to manage risk • There is an Integrated programme of change initiatives • The corporate approach to programme management sets a standard control framework • Performance management processes throughout the business support the delivery of change.	The Programme management offices provide assurance over individual transformation programmes, including Gateway reviews. A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives.
11. Data protection and privacy We may fail to manage our personal data to achieve expected international standards.	This risk is reducing due to the success of the on-going programme to achieve consistent compliance with General Data Protection Regulation (GDPR).	All Outcomes	• The suite of GDPR compliant policies and procedures to govern data use, management and retention are overseen by the Privacy Steering Group. • The on-going training and communication programme for all colleagues improves awareness and compliance with procedures. • The asset discovery and management procedures improve the completeness of controls. • The information security breach procedure allows swift follow up and reporting of breaches. • Subject Access request procedure introduced and communicated.	Internal audit, using co-source expertise, tests the design and operation of the control framework to achieve expected standards. The Privacy Steering Group monitors the roll out of the policies and procedures across the business. The Data Protection Officer monitors training attendance and knowledge.

12. Political, legal and regulatory change We may fail to adapt quickly to externally driven political and regulatory change	This is a new principal risk recognising the changing political environment facing the Water Industry.	All Outcomes	• Stakeholder relationships with our regulators provide an early view of regulatory and legal change • Network of legislation champions ensure business processes are compliant with statutory and regulatory obligations • A suite of cross-business training and development promotes awareness of new obligations	A programme of internal and external audits test the design and operation of controls to achieve compliance. The Regulation team monitors the compliance with our regulatory obligations. Our risk and controls self-assessment requires all senior leaders to assure compliance with our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.
13. New market implementation and competition We may fail to ensure we are resilient to market change and competition	This is an expansion of our Competition risk to reflect the importance of responding to the changing business environment, taking the opportunities provided by new markets in a controlled, compliant way.	We keep your bills as low as possible	• Wholesale:Retail policies and procedures to ensure Competition Act compliance are set out in the Corporate Governance manual. • The Market Architecture Plan and Wholesale-Retail Code set out compliant processes. • Cultural change is achieved through on-going Group-side training and leadership. • Physical and IT systems are separated. • All support and shared services provided are governed by service level agreements.	Internal audit, using co-source expertise, tests the design and operation of the control framework. The Regulatory Compliance team, working with Legal Services, monitors compliance with the control framework. Data analytics is used to provide live assurance over operation of separation controls.

14. Open and transparent governance Our processes and actions may not be transparent.	This is a new risk recognising our AMP7 ambitions.	All Outcomes	• The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks. • The company monitoring framework ensures we report clearly, openly accurately. • Data governance and data quality policies and procedures are set out in the Corporate Governance manual.	Internal audit tests the design and operation of the data governance and quality control framework.

Assuring the quality of this Strategic Report

Our assurance for this Strategic Report comes from several sources and is a year-round activity. We have used our best practice risk-based 'three levels' approach. By mapping our assurance activities into three levels, we make sure that sufficient assurance is provided at the right time. A description of the levels of assurance is provided below.

Level 1 - Business operations
This is provided from controls in our front-line operations. It takes place throughout the year. We regularly review our processes, systems and controls to ensure accurate reporting. It includes having the right people in the right roles, who are responsible for delivering a service, for example our named data providers and data managers. The value of this assurance is that it is timely and comes from the business experts who understand the performance and the challenges faced.

Level 2 - Oversight functions
This comes from oversight teams with specialist knowledge, such as our Finance, Regulation and Legal teams. This assurance is separate from those who have responsibility for delivery. The value of this assurance is that those involved will review information for technical accuracy, compliance and against wider company expectations.

We have a formal monthly reporting process for data relating to our Performance Commitments, and a quarterly process for our SBO commitments.

Level 3 - Independent assurance
This is carried out by independent assurance providers who operate to professional and ethical standards. This means they will form their own conclusions on the information and evidence they review. The value of this assurance is that it is independent of line management and organisational structure.

The contents of this Strategic Report have had the following independent assurance:

- Our Internal Audit team have completed a financial and regulatory accounting audit on the controls in place for financial accounting, for example reconciliations. Internal Audit have also reviewed the reported performance on our Performance Commitments and our SBO commitments.
- Our external technical auditor, Halcrow, has reviewed the stated position on our Performance Commitments to confirm accuracy and completeness.
- Our external financial auditor, Deloitte LLP, has reviewed the financial information to confirm there is no material inconsistency with the financial statements.

You can find our Assurance Plan on our website at this link:
www.yorkshirewater.com/discoverwater

The Strategic Report was approved by a duly authorised committee of the Board of directors on 13 July 2018 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2018

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

The Board is open and accountable to each of the Company's shareholders and stakeholders for maintaining standards of corporate governance.

Kelda Eurobond Co Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to the Kelda Holdings Limited group is detailed in the Annual Report and Financial Statements of that company, a copy of which is available from the Company Secretary. Their report includes details of its committees and internal control.

The Board of directors

The Board comprises an independent non-executive Chairman, eight investor non-executive directors and two executive directors. Biographies of the directors are contained in the Directors' Report on pages 70 to 72.

Internal control and risk management

The Board is responsible for the Group's internal control systems and for reviewing their effectiveness. The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Group have been in place for the year to 31 March 2018 and up to the date of approval of the Annual Report and Financial Statements (ARFS) and are regularly reviewed by the Board. The Group has a comprehensive and well-defined risk management policy, including control policies, with clear structures, delegated authority levels and accountabilities, described in pages 51 to 65 within the Strategic Report. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. The process can only provide reasonable, not absolute, assurance against material misstatement or loss. The Group Risk Committee monitors the overall level of risk, the quality of control frameworks and the delivery of action plans to bring risk in line with appetite. In relation to financial reporting, the systems of risk management and internal control include an accounting policy manual and an established system of accounting processes, including management monitoring and review.

In 2017/18 the Group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

- The key risks facing the Group are identified through a clear risk assessment matrix, and recorded in the corporate risk register.
- The Risk Committee reviews all movements in strategic risk as well as considering the adequacy of the controls in place to mitigate strategic risks to risk appetite.
- Risk registers are maintained by individual business units, with clear allocation of management responsibility for risk identification, recording, analysis and control.
- Risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action.
- Key risk indicators are used to monitor changes in risk position.
- The Risk Committee reviews the Group's strategic risk position.
- A risk review is conducted with the Kelda Management Team (KMT) and the Board using a PESTLE analysis (political, economic, social, technological, legal and environmental) at least annually.
- The Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf the Group.
- Delivery of the risk based Internal Audit plan provides independent assurance to Audit Committee and senior leaders.

The Audit Committee has considered the control environment and control activities which the Board can rely on for disclosures in this report. During the reporting year, the Committee has also acted on behalf of the Group to review the effectiveness of:

- Risk management: Internal audit conducted by our internal audit co-source partner, KPMG, including materiality assessment and comparison to best practice.
- The effectiveness of internal audit: Monitoring performance against agreed Key Performance Indicators.
- The effectiveness of external audit: Annual questionnaire of key stakeholders allowed tracking of performance against targets.

The Group Audit Committee confirms that it has reviewed the system of internal control. It has received the reports of the Risk Committee and has conducted a formal review covering all controls including financial, operational, compliance and risk management. No significant failings of internal control were identified during these reviews, limited weaknesses were identified, none of which are significant and all have clear action plans to address them in an appropriate time frame.

Directors' Report

The Directors present their report and the audited consolidated financial statements for the Group for the year ended 31 March 2018. The Directors' Report should be read in conjunction with the Strategic Report. The Corporate Governance Report on pages 67 to 68 forms part of this Directors' Report.

Financial results for the year

The loss for the financial year from continuing operations was £71.6m (2016/17: loss of £422.0m).

Dividends

Dividends of £nil were paid during the year (2016/17: £8.2m).

Principal activities

The principal activities of the Group are to manage the collection, treatment and distribution of water in Yorkshire. At the same time the Group also collects, treats and disposes of waste water safely back into the environment. Yorkshire Water, the Group's regulated utility business in the UK, is responsible for both water and wastewater services.

Other businesses include the UK non-regulated water and waste water services business, Loop Customer Management Limited, Kelda Water Services Limited, Keyland Developments Limited, a company which primarily develops surplus property assets of Yorkshire Water, and Three Sixty Water Limited, the business which offers water and waste water retail and added value customer services to non-household customers across the UK on a contractual basis with Yorkshire Water.

The principal activity of the Company is to hold bonds issued (i.e. corporate debt) as part of the acquisition of the shares of Kelda Group Limited (formerly Kelda Group Plc) by the shareholders in 2008. This bond debt meets the eligibility requirements of the "quoted Eurobond exemption". All bond debt issued by Kelda Eurobond Co Limited is held by the shareholders of Kelda Holdings Limited.

Business review

A review of the development and performance of the business of the Group, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the Group are set out in the Strategic report on pages 1 to 66.

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

Directors

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

Anthony Rabin (Chairman)
Scott Auty
Liz Barber
Paul Barr
Simon Beer
Vicky Chan
Andrew Dench
Milton Fernandes (resigned 8 May 2017)

Richard Flint
Holly Koeppel (resigned 13 July 2017)
Mark Lorkin (appointed 13 July 2017)
Aparna Narain (appointed 15 November 2017)
Mike Osborne
Jane Seto (resigned 15 November 2017)

Biographies

Anthony Rabin
Anthony has previously held roles at Balfour Beatty plc, including as an executive director for ten years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy).
Anthony was appointed to the Board as a non-executive director and interim Chairman with effect from 1 June 2016 and Chairman from 9 September 2016. He was also appointed as independent non-executive Chairman of Yorkshire Water Services Limited and Kelda Eurobond Co Limited on this date.

Richard Flint
Richard was appointed Group Chief Executive to the Board in March 2010 and Chief Executive of Yorkshire Water in April 2010. He was appointed as Chief Operating Officer of Yorkshire Water in September 2008 and prior to this was Director of the Company's Water Business Unit from 2003.

He is Chair of the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and a member of the BITC Water Taskforce, and a Board member of the water industry trade body, Water UK. Richard was also appointed to the Board of Trustees of Marie Curie early in 2017.

Elizabeth (Liz) Barber
Liz was appointed as Director of Finance and Regulation to Yorkshire Water and Group Finance and Regulation Director to the Board of Kelda Holdings Limited in November 2010.

Now Director of Finance, Regulation and Markets, Liz joined the company from Ernst & Young LLP (EY) where she held several senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. Liz had been with EY since 1987 and in that time worked with some of the largest companies in the UK. Liz specialised in delivery of services to the water industry, including several water companies and UK regulators.

Liz is a lay member and trustee of the University of Leeds, and is a non-executive director and Chair of the Audit Committee at KCom plc. Liz is a member of HRH Prince Charles' Accounting for Sustainability network of CFOs, which she chaired for two years.

Scott Auty
Appointed to the Board as a non-executive director on 10 December 2010. Scott is a Director of Deutsche Asset Management's infrastructure business, Europe, based in London and is responsible for the origination and execution of infrastructure investment opportunities as well as the ongoing management of the acquired assets. He is a member of the Investment Committee for the two European infrastructure funds managed by Deutsche AM. Prior to joining Deutsche AM's infrastructure business in 2005, Scott started his career at N M Rothschild & Sons' investment banking division where he was a specialist in the Utilities and Natural Resources sectors.

Scott was appointed to the board of Yorkshire Water Services Limited as an investor non-executive director in September 2017.

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

Simon Beer
Appointed to the Board as a non-executive director on 20 December 2016. Simon is currently a Partner at StepStone Infrastructure and Real Assets where he leads the Asset Management function. Prior to joining StepStone, Simon worked at Ontario Teachers' Pension Plan in their Infrastructure and Natural Resources team where he focused on asset management and value creation across their global portfolio.

Simon has also been a Partner at KPMG, focused on operational improvement in the Infrastructure and Natural Resources sectors and before that worked for BP in their upstream major projects division. He started his career at Kellogg, Brown and Root a leading Engineering and Construction company and is originally from Manchester, UK. Simon is also a director of Northern Gas Networks Limited.

Vicky Chan
Appointed to the Board as a non-executive director on 27 September 2013. She is a Principal at Corsair Infrastructure Management, L.P., an entity affiliated with Corsair Capital LLC (together with its affiliates, "Corsair"). Vicky is also a director of Arecibo Servicios y Gestiones, S.L. and Itínere Infraestructuras, S.A.

Andrew Dench
Appointed to the Board as a non-executive director on 30 September 2015. Andrew is a Senior Vice President in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio and is also a non-executive director on boards for TIGF (Gas Transportation and Storage, France), Duquesne Light and Power (Electricity Transportation and Distribution, US) and Greenko (Renewal Generation, India).

Prior to joining GIC, Andrew was CFO of Electricity North West and Deputy CEO / CFO Veolia Water, UK, Ireland & Northern Europe. While at Veolia, he was a non-executive director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan & Stanley where he was focused on project finance, M&A, utilities and the natural resources sector.

Andrew was appointed to the board of Yorkshire Water Services Limited as an investor non-executive director in September 2017.

Mark Lorkin
Appointed to the Board as non-executive director on 13 July 2017. He is the Managing Director of Citi Infrastructure Investors and was previously a director of Kelda Holdings Limited from 2009 to 2013. Mark is also a director of Itínere Infraestructuras, S.A., DWPA Australia Ltd and West Park Capital Pty Ltd.

Aparna Narain
Appointed to the Board as a non-executive director on 15 November 2017, Aparna was also previously a director from March 2014 to November 2016. Aparna is a Vice President of Deutsche Asset and Wealth Management, a division of Deutsche Bank. She is responsible for identifying and analysing infrastructure investment opportunities, the implementation of transactions, and the ongoing management of acquired businesses. Prior to Deutsche Asset and Wealth Management, she worked for Citigroup, advising clients in the power and utilities sectors on a range of fixed income financings.

Michael Osborne
Appointed to the Board as a non-executive director on 31 January 2013. Mike is a Principal at Corsair Infrastructure Management, a business unit of Corsair Capital. He is also a director of Itínere Infraestructuras, S.A., a toll road operator in Spain. Mike has 15 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

Mike was appointed to the board of Yorkshire Water Services Limited as an investor non-executive director in September 2017.

Former directors

Holly Koeppel (resigned 13 July 2017)
Appointed to the Board as a non-executive director on 25 March 2010. She is Head of Corsair Infrastructure Management L.P. Holly is chair of DP World Australia Limited and a director of AES Corp, Reynolds American Inc., Itínere Infraestructuras, S.A., Vantage Airports Group Ltd and Vesuvius Plc. Holly has previously held roles in American Electric Power Company Inc, including Chief Financial Officer for three years and Executive Vice President for AEP Utilities East for three years. Prior to that she also held roles at Consolidated Natural Gas.

Jane Seto (resigned 15 November 2017)
Jane was appointed to the Board as a non-executive director on 10 December 2010. Jane is a managing director of Deutsche Asset and Wealth Management, a division of Deutsche Bank, and is Portfolio Manager for the RREEF Pan-European Infrastructure Fund. She is responsible for the management of the Fund's portfolio businesses, as well as the ongoing expansion and development of Deutsche Bank's infrastructure's business in Europe. Jane serves as a board director to numerous joint venture and portfolio investment companies. Prior to Deutsche Asset and Wealth Management, she spent 12 years in various roles at Bechtel Enterprises Inc., the infrastructure finance and development arm of Bechtel Group Inc.

Milton Fernandes (resigned 8 May 2017)
Appointed to the Board as a non-executive director from 7 December 2012. Milton is a member of the Executive Committee of Infracapital, the infrastructure equity arm of M&G Investments. Milton has over 17 years' experience in infrastructure investment. Prior to Infracapital, Milton was the Finance Director of Innisfree Limited, a specialist infrastructure PFI/PPP investor. Milton also sits on the boards of a number of infrastructure portfolio companies in the UK and Continental Europe. Milton is a fellow of the Institute of Chartered Accountants in England & Wales.

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

Shareholders

As at the 31 March 2018, the shareholders of the Kelda Holdings Group were as follows.

- Pan-European Infrastructure Fund: 23.37% holding
- Gateway Infrastructure Investments L.P., Gateway UK Water L.P. and Gateway UK Water II L.P., (managed by Corsair Infrastructure Management L.P.): 30.32% holding
- GIC: 33.56% shareholding
- SAS Trustee Corporation: 12.75% holding

Research and development
The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2017/18 £4.8m (2016/17: £5.5m) was committed to research and development.

Fixed assets
The Directors are aware that the value of certain land and buildings in the balance sheet may not be representative of their 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.

Previous movements in fixed assets have included transfers to KeyLand Developments Limited, which were all made on the basis of independent external valuations obtained specifically for the purpose and approved by Ofwat. With effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by Ofwat.

Revaluation of assets
Certain classes of the group's tangible fixed assets were revalued in the year, as detailed in note 13 to the Statutory Financial Statements. As a result of the valuation carried out at 31 March 2018 the carrying value of the infrastructure assets has increased by £199.9m and the resulting revaluation surplus taken to the revaluation reserve. Certain classes of the group's land and buildings are also held under a revaluation model, on the basis of existing use, valued by independent qualified surveyors in March 2014. The next valuation will take place for the 2018/19 year-end. In the intervening years, a directors' valuation has been performed.

Employees and employment policies

The Group continues to place an importance on ensuring a positive working environment for all colleagues and a culture of open, honest internal communications and feedback. The Company Values provide the framework for the consistent behaviours expected from colleagues.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through a range of channels, including the intranet, 'Team Talks' and 'Talk Back' sessions by line managers and directors, annual business plan cascades, 'people leader' events to cascade key business performance messages and a bi-annual employee engagement survey. The Group also undertakes an anonymous diversity and inclusion perception survey every two years where colleagues are encouraged to feedback on the culture of the workplace and share their experiences. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

To further promote successful employee relations, collective bargaining arrangements are in place with the Group's recognised trade unions – UNISON, GMB and Unite. In addition, communication and consultation forums take place across the company, comprising elected union and non-union employees meeting on a quarterly basis with directors and senior managers to share performance information and discuss health and safety issues. These meetings also provide an opportunity to seek employee views which can then be considered in decision making.

The Group is committed to providing an inclusive working environment with a diverse workforce which reflects its customer base and is committed to equality and opportunity for all. A director sponsored diversity and inclusion steering group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, each with a prioritised area of focus, these are gender, ability, LGBTQ and ethnicity. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and CSR, supporting us to become a more diverse and inclusive employer and better reflect our customer base.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. Yorkshire Water runs a supported internship in partnership with a local school for students with an autistic spectrum condition where students work in real roles in the business at the same time as gaining a formal qualification. The company is now part of a group leading the role out of an internship programme across the region. Yorkshire Water is a disability confident employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role.

The Group has a big role to play in addressing skills shortages, particularly when it comes to the science, technology, engineering and mathematics (STEM) subjects. Yorkshire Water proactively supports national women in engineering week by running a number of events with girls from local schools. The company has invested in a STEM focussed development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this AMP.

The Group aims to attract, select, develop and retain the best talent to meet the needs of the business. There is a strong commitment to developing a pipeline of technical talent and understanding future skills requirements to meet the Group's evolving needs. The talent framework is used to discuss aspirations, skills and development needs at all levels. During this AMP Yorkshire Water will recruit 160 apprentices to create a strong pipeline of talent for the future. The company works in partnership with a number of schools across the region to ensure that young people become more employable when they leave school and have a better chance of gaining employment. The company provides a wide range of development tools, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. The Group also recognises the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

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

Political donations

The Group does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However, the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the Group and stakeholders.

As part of its stakeholder engagement programme the Group incurred expenditure of £5,000 (2016/17: £4,923) on such activities.

Annual General Meeting

Kelda Eurobond Co Limited no longer holds an annual general meeting.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report.

The Directors have considered the 5 year business plan and the cash position of the Group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the Group for the

12 months from the date of signing the Financial Statements. In addition, Yorkshire Water Services Limited has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. As a consequence, the Directors' believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the Financial Statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Independent auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

Disclosure of information to auditors

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

- So far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- Each director has taken all the steps that he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information, and to establish that the Group's auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s148 of the Companies Act 2006.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively; and
- 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 the Group 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.

The directors' report was approved by a duly authorised committee of the Board of directors on 13 July 2018 and signed on its behalf by:

Richard Flint, **Director**
13 July 2018

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELDA EUROBOND CO LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Kelda Eurobond Co Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated statement of profit or loss;
- the consolidated statement of comprehensive income;
- the consolidated and parent statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cashflows;
- the related notes 1 to 29 of the group accounts; and
- the related notes 1 to 8 of the parent company accounts

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Completeness of household bad debt provisioning; • Classification of costs as Property, Plant and Equipment; • Valuation of infrastructure assets; • Valuation of derivatives; and • Accounting for divestments.
Materiality	The materiality that we used for the group financial statements was £20 million which was determined on a combination of benchmarks used by stakeholders in the business.

	Materiality represents 2.0% of revenue and 3.4% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") as disclosed in note 4.
Scoping	Our audit scoping has resulted in 100% of the group's net operating assets, profit before tax and EBITDA being subject to audit testing.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Completeness of household bad debt provisioning	
Key audit matter description	A proportion of the Group's customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management makes estimates regarding future cash collection when calculating the bad debt provision. The value of the provision for trade receivables at 31 March 2018 is £35.0 million (31 March 2017: £31.9 million), as disclosed in note 14. Provisions are made against the Group's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories. We identified a key audit matter in respect of the appropriateness of the provisioning percentages applied to the various aged balances. In particular, this includes whether those percentages applied are an accurate reflection of collectability in the past and also if the percentages are indicative of the likely collection levels in respect of those trade receivables held at year end. Due to the high level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. Bad debt provisioning is included as a principal estimate in note 2 to the

	financial statements.
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • enquired of management their methodology for determining the bad debt provision; • assessed the design and implementation and tested the operating effectiveness of key controls relating to the bad debt provision calculation; • compared the assumptions made by management in calculating the provision to evidence provided from historical collection data; • assessed the reasonableness of any judgements made in respect of likely future events, noting that no likely future events have been factored into the provisioning policy; • performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages applied; • reviewed cash collection trends during the period compared to those originally forecast; and • reviewed the receivables aging report and substantively tested a sample of balances to test that the aging in the report was appropriate.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables and the calculation of the ageing of trade receivables are appropriate.
Classification of costs as Property, Plant and Equipment	
Key audit matter description	The Group has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore the Group incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Property, plant and equipment ("PPE") additions and transfers from Assets Under Construction in the year were £140.5 million of the total additions of £446.6 million disclosed in Note 13 (31 March 2017: £112.4 million additions and transfers from Assets under construction out of the total £395.7 million additions). Of these additions £52.5million (2017: £43.5million) related to internal overhead and labour time capitalised. Judgement is required to assess whether these internal costs capitalised are attributable to relevant assets and that future economic benefits will flow to the Group. Judgement is also required in respect of whether certain of these costs constitute repairs and maintenance or other non-capital costs rather than relating to the enhancement of assets. There is therefore a risk that PPE is valued incorrectly as a result of internally generated labour and overhead costs being misclassified. Due to the level of judgement involved, we determined that there was a potential for fraud through possible manipulation of this balance. Capitalisation of labour costs is included as a principal judgement in note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • evaluated the design and implementation of key controls over the procurement and investment appraisal process, and the allocation of costs to capital or operating expenditure; • assessed the Group's capitalisation policy to determine compliance with relevant accounting standards; • understood the judgements made by management, challenging the assumptions made in the allocation of overheads to capital projects, based on our understanding of the nature of activities performed by those personnel; • extracted data for all fixed assets transactions made in the year

	and performed data analytics procedures to identify items of audit interest, which were then tested to supporting evidence; and • selected a sample of capital projects where we tested the application of the capitalisation policy as determined by management and agreed the costs incurred to third party invoices.
Key observations	We are satisfied that the classification of costs as Property, Plant and Equipment assets capitalised in the year is appropriate
Valuation of infrastructure assets	
Key audit matter description	At each year end the Group engages a third party to perform a valuation exercise to fair value the Group's infrastructure assets and, after review and consideration by management, management determine a fair value to be recorded that is within the range provided by the third party. There is a significant level of judgement surrounding the fair value determination in respect of these assets. Infrastructure assets at 31 March 2018 were £4,452.8m (2017: £4,222.3m) Valuation of infrastructure assets is also included as an area of key estimation uncertainty in note 2 to the financial statements. The value of the infrastructure assets and fair value uplift recognised on these assets at the year end is disclosed in note 13.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows; • evaluated the design and implementation of key controls surrounding the asset revaluation process; • understood the scope of the valuation work and the key judgements made in the work performed by the company's third party valuer; • assessed the independence and objectivity and competence of the third party valuer; • engaged our internal valuation specialists to challenge the assumptions and method of valuation used by the company's third party valuer; and • tested whether the fair value uplift required has been accurately recorded in the accounts.
Key observations	We are satisfied that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and hence that the fair value of the infrastructure assets recognised is appropriate.
Valuation of derivatives	
Key audit matter description	IAS 39 "Financial Instruments: Recognition and Measurement" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit, debt and funding valuation adjustments, as well as in relation to the designation, documentation and testing of effectiveness hedge relationships. Financial instruments at 31 March 2018 totaled £88.2m assets and £1,779.6m liabilities (2017:£141.3m assets and £2,066.8m liabilities) and the fair value movement recognised in the profit and loss account in the year totaled £115.4m interest receivable and £74.4m interest payable (2017: £54.5m interest receivable and £521.1m interest payable)

	The fair value of financial instruments is included as an area of key estimation uncertainty in note 2 to the financial statements. The movement in fair value of derivatives in the year is disclosed in note 5 and the fair value held at year end is disclosed in note 22.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows; • held discussions with the treasury team to understand the nature and number of various derivatives held and gain an understanding of the derivative transactions which occurred in the year; • used our in-house valuation specialists to re-perform the expected restructured fair values arising from the transactions which occurred in the year and recalculated the expected amortisation charge arising from these transactions under IAS 39; • evaluated the design and implementation of key controls around the valuation techniques used in determining the fair value of derivatives; • used valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities; • inspected hedge documentation, and independently tested hedge effectiveness against the criteria documented to assess whether accounting journals reflect the valuation and results of effectiveness testing performed; • enquired of the accounting for all derivative positions, both external to the company and the intercompany arrangements, to assess whether they are in accordance with IFRS; • inspected the accounting entries made for the transactions in the year to test that they are in line with IAS 39; and • inspected the disclosures as required by IAS 39 to assess compliance with the standards and observed industry practice.
Key observations	We are satisfied that the fair values recognised and disclosures made in respect of the derivatives recorded in the financial statements is appropriate.
Accounting for divestments	
Key audit matter description	During the year ended 31 March 2018 the Group completed a number of transactions which resulted in the divestment of eight of the Kelda Water Services businesses, which together represent the majority of non-regulated activities undertaken by the Group. The consideration received, the results included in the Group accounts and net assets disposed of from these divestments is included in in note 5. The results included in the group accounts for the period from divestments are included in note 9.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • evaluated the design and implementation of key financial controls relating to the disposal process; • reviewed the Sale and Purchase Agreements (SPAs) for the businesses sold (including deferred consideration arrangements and any residual liabilities and indemnities); • agreed the consideration received for the sales to supporting documentation; • tested the profit and loss to the date of disposal and closing balance sheet positions for the divested entities to assess whether cut-off was appropriate and the accounting entries, including any gain or loss on disposal, were complete; and • reviewed the financial statement disclosures in relation to the divestments to assess whether they are appropriate and complete, including their classification as discontinued operations.

Key observations	We are satisfied that the amounts recorded and the disclosures made in relation to the divestments in the financial statements is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20 million	£10 million
Basis for determining materiality	Materiality represents 2.0% of revenue and 3.4% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") as disclosed in note 4.	Materiality represents 1.4% of net assets.
Rationale for the benchmark applied	Revenue and adjusted EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting.	The parent company does not trade or exist for profit generating purposes so materiality has been determined using net assets.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £800,000 for the group as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Our audit procedures resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing. The range of component materialites used was £10 million to £18 million.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

All work was performed by the group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and or the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Jane Boardman (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

13 July 2018

Kelda Eurobond Co Limited
Consolidated statement of profit or loss
for the year ended 31 March 2018

	Note	**2018 £m**	2017 £m
Revenue		**1,013.3**	1,004.2
Operating costs before exceptional items	*4*	**(740.4)**	(724.5)
Exceptional items	*5*	**15.2**	31.5
Total operating costs		**(725.2)**	(693.0)
Operating profit before share of associates and joint ventures		**288.1**	311.2
Share of associates' and joint ventures' loss after tax		**(0.1)**	-
Operating profit from continuing operations		**288.0**	311.2
Finance income before exceptional items	*7*	**49.2**	22.2
Exceptional finance income	*5*	**115.4**	54.5
Total finance income		**164.6**	76.7
Finance costs before exceptional items	*7*	**(440.3)**	(403.5)
Exceptional finance costs	*5*	**(74.4)**	(521.1)
Total finance costs		**(514.7)**	(924.6)
Loss from continuing operations before taxation		**(62.1)**	(536.7)
Tax (charge)/credit	*8*	**(9.5)**	114.7
Loss from continuing operations		**(71.6)**	(422.0)
Profit/(loss) from discontinued operations net of tax	*9*	**6.7**	(9.0)
Total loss for the year		**(64.9)**	(431.0)

The notes on pages 91 to 163 form an integral part of the financial statements.

Kelda Eurobond Co Limited
Consolidated statement of comprehensive income
for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Loss for the year		**(64.9)**	(431.0)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of infrastructure assets before taxation	*13*	**199.6**	279.8
Taxation	*8*	**(33.9)**	(45.1)
		165.7	234.7
Remeasurement of defined benefit pension before taxation	*20*	**85.0**	(80.1)
Remeasurement of employer funded retirement benefit scheme before taxation		**0.6**	(2.0)
Taxation	*8*	**(9.1)**	8.8
		76.5	(73.3)
Items that may be subsequently reclassified to profit or loss:			
Gains on hedges taken to equity before taxation		**5.7**	2.0
Taxation	*8*	**(3.0)**	(0.7)
		2.7	1.3
Other comprehensive income for the year, net of tax		**244.9**	162.7
Total comprehensive profit/(loss) for the year		**180.0**	(268.3)

Consolidated statement of financial position
as at 31 March 2018

	Note	**£m**	£m
Non-current assets			
Intangible assets	*11*	**1,458.0**	1,450.4
Property, plant and equipment	*13*	**7,703.4**	7,378.2
Investments in associated undertakings and joint ventures		**0.1**	0.2
Loans to associated undertakings and joint ventures		**1.0**	0.5
Trade and other receivables	*14*	**129.3**	121.8
Derivative financial assets	*22*	**88.2**	141.3
Post-employment benefit surplus	*20*	**84.8**	-
		9,464.8	9,092.4
Current assets			
Inventories		**3.0**	2.7
Trade and other receivables	*14*	**159.3**	212.5
Tax assets		**2.1**	1.4
Cash and cash equivalents	*15*	**65.6**	276.1
Assets held for sale	*16*	**160.4**	242.8
		390.4	735.5
Total assets		**9,855.2**	9,827.9
Current liabilities			
Trade and other payables	*17*	**(345.9)**	(335.0)
Deferred grants and contributions on depreciated assets	*18*	**(10.0)**	(2.9)
Borrowings	*15*	**(280.5)**	(171.6)
Liabilities directly associated with assets held for sale	*16*	**(103.1)**	(208.4)
		(739.5)	(717.9)
Non-current liabilities			
Borrowings	*15*	**(6,261.6)**	(6,207.0)
Trade and other payables	*17*	**(7.7)**	(4.6)
Financial liabilities		**(1,779.6)**	(2,066.8)
Deferred grants and contributions on depreciated assets	*18*	**(433.5)**	(422.2)
Post-employment benefit deficit	*20*	**-**	(8.7)
Provisions for other liabilities and charges		**(1.5)**	(2.1)
Deferred income tax liabilities	*19*	**(474.5)**	(421.3)
		(8,958.4)	(9,132.7)
Total liabilities		**(9,697.9)**	(9,850.6)
Net assets/(liabilities)		**157.3**	(22.7)
Equity attributable to owners of the parent			
Ordinary shares	*21*	**750.0**	750.0
Hedging reserve		**(10.9)**	(37.8)
Revaluation reserve		**605.8**	440.4
Accumulated losses		**(1,187.6)**	(1,175.3)
Total equity/(deficit)		**157.3**	(22.7)

Kelda Eurobond Co Limited
Consolidated Financial Statements
for the year ended 31 March 2018

The financial statements on pages 85 to 163 were approved by a duly authorised committee of the board of directors on 13 July 2018 and signed on its behalf by:

Richard Flint
Chief Executive

13 July 2018

Kelda Eurobond Co Limited

Registered in England no. 06433768

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

Consolidated statement of changes in equity
as at 31 March 2018

	Note	**Equity shares £m**	**Hedging reserve £m**	**Revaluation reserve £m**	**Accumulated losses £m**	**Total equity £m**
Balance at 1 April 2016		750.0	(39.1)	205.7	(662.8)	**253.8**
Total comprehensive income for the year						
Loss for the financial year		-	-	-	(431.0)	**(431.0)**
Revaluation of fixed assets before taxation	*13*	-	-	279.8	-	**279.8**
Income tax on revaluation of fixed assets	*8*	-	-	(45.1)	-	**(45.1)**
Remeasurement of defined benefit pension before taxation	*20*	-	-	-	(80.1)	**(80.1)**
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	(2.0)	**(2.0)**
Income tax on revaluation of retirement benefits	*8*	-	-	-	8.8	**8.8**
Gains on cash flow hedges taken to equity before taxation		-	2.0	-	-	**2.0**
Income tax on cash flow hedges	*8, 16*	-	(0.7)	-	-	**(0.7)**
Total comprehensive income for the year		**-**	**1.3**	**234.7**	**(504.3)**	**(268.3)**
Transactions with owners recorded directly in equity						
Dividends	*10*	-	-	-	(8.2)	**(8.2)**
Balance at 31 March 2017		**750.0**	**(37.8)**	**440.4**	**(1,175.3)**	**(22.7)**

	Note	**Equity shares £m**	**Hedging reserve £m**	**Revaluation reserve £m**	**Accumulated losses £m**	**Total equity £m**
Balance at 1 April 2017		750.0	(37.8)	440.4	(1,175.3)	**(22.7)**
Total comprehensive income for the year						
Loss for the financial year		-	-	-	(64.9)	**(64.9)**
Revaluation of fixed assets before taxation	*13*	-	-	199.6	-	**199.6**
Income tax on revaluation of fixed assets	*8*	-	-	(33.9)	-	**(33.9)**
Remeasurement of defined benefit pension before taxation	*20*	-	-	-	85.0	**85.0**
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	0.6	**0.6**
Income tax on revaluation of retirement benefits	*8*	-	-	-	(9.1)	**(9.1)**
Gains on cash flow hedges taken to equity before taxation		-	5.7	-	-	**5.7**
Income tax on cash flow hedges	*8, 16*	-	(3.0)	-	-	**(3.0)**
Total comprehensive income for the year		**-**	**2.7**	**165.7**	**11.6**	**180.0**
Transfers		-	24.2	(0.3)	(23.9)	**-**
Transactions with owners recorded directly in equity						
Dividends	*10*	- -		-	-	**-**
Balance at 31 March 2018		**750.0**	**(10.9)**	**605.8**	**(1,187.6)**	**157.3**

Consolidated statement of cash flows
for the year ended 31 March 2018

	Note	**2018** **£m**	2017 £m
Cash flow from operating activities	*24*	**584.6**	600.3
Income taxes paid		**(1.6)**	(1.2)
Interest paid		**(250.4)**	(344.6)
Net cash generated from operating activities		**332.6**	254.5
Cash flows from investing activities			
Interest received		**42.3**	20.0
(Decrease)/increase in loans to associates and joint ventures		**(0.5)**	0.4
Proceeds from disposal of operations		**101.9**	-
Loans granted to parent company		**-**	(45.4)
Proceeds on disposals of property, plant and equipment		**1.9**	1.5
Purchases of property, plant and equipment		**(443.5)**	(415.5)
Reduction in cash balance from sales of operations		**(19.8)**	-
Capital grants and contributions		**26.9**	37.1
Net cash used in investing activities		**(290.8)**	(401.9)
Cash flows from financing activities			
Borrowings raised (net of fees)		**390.0**	450.3
Dividends paid		**-**	(8.2)
Repayments of borrowings		**(352.8)**	(20.2)
Amounts paid upon restructure on inflation linked swaps		**(250.0)**	-
Repayment of loan to parent company		**(4.4)**	-
Repayment of obligations under finance leases and hire purchase agreements		**(11.0)**	(76.0)
Net cash (used in)/generated from financing activities		**(228.2)**	345.9
Net(decrease)/increase in cash and cash equivalents		**(186.4)**	198.5
Cash and cash equivalents at the beginning of the year		**276.1**	77.6
Cash and cash equivalents at the end of the year - operations		**89.7**	276.1
Cash and cash equivalents at the end of the year - discontinued operations	*16*	**(24.1)**	-
Cash and cash equivalents at the end of the year - continuing operations	*15*	**65.6**	276.1

1. Authorisation of financial statements

The group's financial statements for the year ended 31 March 2018 were authorised for issue by the board of directors on 13 July 2018 and the balance sheet was signed on the board's behalf by Richard Flint, Chief Executive. Kelda Eurobond Co Limited is a limited company incorporated and resident for tax in the UK. The registered office address of Kelda Eurobond Co Limited is Western House, Halifax Road, Bradford, BD6 2SZ.

2. Accounting policies

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

Basis of accounting

The consolidated financial statements of Kelda Eurobond Co Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the group for the year ended 31 March 2018.

The consolidated financial statements have been prepared under the historical cost convention except for certain categories of property, plant and equipment which are held at valuation, all derivative financial instruments and financial assets which have been measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 104 to 105.

Going concern

The financial statements have been prepared using the going concern basis of accounting.

Basis of consolidation

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

Foreign currencies

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

On consolidation, the income statements of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date.

2. Accounting policies *(continued)*

Revenue

Water charges

This revenue stream comprises charges to customers for water, waste water and other services excluding value added tax, and arises only in the United Kingdom.

Revenue is recognised when the service has been provided to the customer. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No revenue is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant revenue is cancelled. Generally, a property is classed as void if it is unoccupied and unfurnished.

Connection charges

This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network. Revenue relating to these charges is recognised over the expected useful life of the asset.

Infrastructure charges

This revenue stream comprises charges to property developers to compensate for the additional strain on the infrastructure system. The charges are fixed per property. The associated revenue is recognised over the expected useful life of the assets.

Net operating costs

Net operating costs include the following:

Rental income

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

Other operating income

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

Finance income

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

Dividends payable

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

Research and development expenditure

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

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

2. Accounting policies *(continued)*

Taxation

- *Current tax*

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

Deferred tax

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

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

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

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

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

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

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

2. Accounting policies _(continued)_

Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single, co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale under IFRS 5:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer has been initiated;
- the sale is highly probable, within 12 months of classification as held for sale;
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

When the operation is classified as a discontinued operation, the comparative statement of profit and loss and statement of comprehensive income/(expense) is re-presented as if the operation had been discontinued for the start of the comparative year.

Goodwill and intangible assets

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

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

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

Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Software is amortised on a straight-line basis over its useful life. The useful life of software is estimated to be five years.

Property, plant and equipment

Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets are held at valuation (see note 13). Other property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment.

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

Useful economic lives are principally as follows:

Buildings	25 - 100 years
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Water mains and sewers	40 - 125 years
Earth banked dams and reservoirs	200 years

Assets under 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.

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

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Impairment of property, plant and equipment and goodwill

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

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

Accounting for leases

Finance leases

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

2. Accounting policies *(continued)*

Operating leases

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

Government grants and contributions

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

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

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

Investments in joint ventures and associates

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

The group's interest in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting.
Under the equity method, the investment in the joint venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the group's share of its net assets, less distributions received and less any impairment in value of individual investments. The group income statement reflects the share of the joint ventures' and associates' results after tax.

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

Inventories

Inventories are stated at the lower of cost and net realisable value less any provision necessary to recognise damage and obsolescence.

Provisions

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

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an economic outflow to settle; and
- a reliable estimate of this outflow can be made.

Provisions are discounted to present value where the effect is material

2. Accounting policies *(continued)*

Service concessions

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

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

Financial instruments

Financial assets

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

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are initially recognised at fair value, and subsequently remeasured at amortised cost, net of any allowance for impairment. Invoices for unmeasured water charges are due on predetermined dates, irrespective of date of receipt. Invoices for measured water charges are billed quarterly in arrears and generally have 7 day payment terms.

Bad debt provisions are calculated on trade receivables based on judgement of the age and collectability of the debt which is monitored regularly.

Trade and other payables

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

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on measurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated and any equity accounted investee is no longer equity accounted.

2. Accounting policies *(continued)*

Interest bearing loans and borrowings

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

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

Derivative financial instruments

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

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

Fair value hedge

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

Cash flow hedge

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

Derivatives that do not qualify for hedge accounting

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

2. Accounting policies *(continued)*

Employee benefits

Pension plans

(i) Defined contribution scheme

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

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

(ii) Defined benefit scheme

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

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

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

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

The Kelda group would be able to obtain a refund of any surplus generated in the scheme, assuming the gradual settlement of the pension plan liabilities over time until all members have left the plan, and therefore the conditions of IFRIC 14 have not been applied.

Share capital

Ordinary shares are classified as equity.

Exceptional items

Exceptional items are items which derive from events or transactions that fall within the ordinary activities of the group 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. Movements on derivative instruments are identified as exceptional due to their volatility. Items of significance that fall outside the normal group activities are also deemed exceptional.

2. Accounting policies *(continued)*

Segmental reporting

The group's primary reporting format is by business 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, Kelda Transport Management, 360 and Loop
- Property Development - Keyland.

The directors' report details the activities of each segment.

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

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

2. Accounting policies *(continued)*

Fair value estimation

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

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

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

Management base their estimate of discount rate on a consideration of the long term risk free interest rate for the UK, an industry specific risk factor (beta factor), a market risk premium at the date of valuation and a company specific risk factor.

Property, plant and equipment

The group's accounting policy for property, plant and equipment (PPE) is detailed on page 95 of the financial statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the group, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

Certain categories of PPE are held at valuation based on value in use. Value in use is determined using a discounted cashflow model which requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

The group is required to evaluate the carrying value of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable.

Provision for doubtful debts

At each balance sheet date, the group evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results positively or negatively. As at 31 March 2018 current trade receivables from continuing operations were £114.8m (2016: £133.5m), before provision for impairments.

New standards and interpretations
In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. The adoption of amendments to IAS7, IAS12 and Annual Improvements to IFRS Standards 2014-2016, has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2. Accounting policies *(continued)*

The group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*
IFRS 2 (amendments)	*Classification and Measurement of Share-based Payment Transactions*
IFRS 4 (amendments)	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IAS 40 (amendments)	*Transfers of Investment Property*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 28 *Investments in Associates and Joint Ventures*
IFRIC 22	*Foreign Currency Transactions and Advanced Consideration*
IFRIC 23	*Uncertainty over Income Tax Treatments*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the group in future periods, except as noted below:

IFRS 9 – Financial Instruments

The adoption of IFRS 9 Financial Instruments (IFRS 9), which the group have adopted for the year beginning 1 April 2018, will impact both the measurement and disclosure of financial instruments.

When considering the classification of financial instruments, IFRS 9 has one classification approach for all financial assets. Two criteria are used to determine how financial assets should be classified and, hence measured:

- The entitiy's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Non-current financial assets will be classified as 'measured at amortised cost,' as the assets generate contractual cash flows solely of principal and interest and the asset is held to collect contractual cash flows only.

Current financial assets are currently classified as 'loans and receivables,' however as this category will cease to exist, the assets will be classified as 'measured at amortised cost,' because the assets generate contractual cash flows solely of principal, and the asset is held to collect contractual cash flows only.

IFRS 9 does not change the classifications of financial liabilities from the current IAS 39 requirements. All of the group's financial liabilities within the scope of IFRS 9 are measured at amortised cost, with the exception of the derivative arrangements, which are measured at fair value through profit and loss. These are the same classifications as currently recognised under IAS 39, and therefore the adoption of IFRS 9 will have no significant impact on the measurement of the value of the group's financial liabilities.

The bad debt provision is an integral part of the value of trade debtors, and is the recognition of the credit risk on this financial asset. IFRS 9 requires trade receivables to include a lifetime expected credit loss provision based on historical experience, current experience, economic conditions and forecast changes in the receivables. This change in methodology is not expected to materially change the amount of the required provision.

2. Accounting policies *(continued)*

IFRS 15 – Revenue from contracts with customers

IFRS 15, which the group is required to adopt on 1 April 2018, delivers its core principles of revenue recognition in a five step framework as follows:

1. Identify the contracts with customers
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise the revenue as and when performance obligations are met

The group has several income streams that need to be considered in the context of IFRS 15.

Income from the supply of water and waste water services is currently recognised as the service is supplied. Under IFRS 15 there is no significant judgement required in identifying the customer in these contracts with customers. The performance obligations are the supply of these services and revenue is recognised as these obligations are satisfied over time. The adoption of IFRS 15 is not expected to have a material impact.

Income from transactions relating to the group's network assets in providing a network connection and ongoing access to the network (capital income) requires significantly more judgement in identifying contracts with customers and the related performance obligations. This is an area that remains under active consideration within the water industry and the accounting profession. The results of the group could be impacted by the results of these discussions. Revenue recognised in the year in relation to these items amounted to £5.2m, and the associated deferred income balance was £224.6m.

Infrastructure charges and new connections income are currently recognised in deferred income, which is released over the life of the underlying assets. The group's intention is to continue to apply this treatment under IFRS 15.

IFRS 15 also stipulates that if it is not probable that the entity will collect the consideration entitled, the contract does not fall under the scope of the standard. The group are not legally permitted to cease water supply to a property, as a result of this there are a number of customers from which consideration is not expected. This will lead to a reduction in revenue, which will be largely offset by a reduction in the bad debt charge.

IFRS 16 - Leases

The group anticipates that IFRS 16 – 'leases,' effective from 1 April 2019, will not have a material impact on the financial statements, based on the current operating lease charges, as can be seen in note 25. The key effect of this standard will be to require the group to create a long term depreciating 'right of use' asset and corresponding lease liability for leases currently classified as operating leases and charged over the lease term in accordance with the current standard IAS 17 – 'Leases'. Short-term and small value leases are excluded from the revised standard. This will result in increases to non-current assets and liabilities on the statement of financial position, and increases in depreciation and finance expense and a decrease in operating expenses on the income statement.

2. Accounting policies *(continued)*

Accounting Estimates and Judgements

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors consider the principal estimates made in the Financial Statements to be:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Assumptions relating to the defined benefit pension scheme

The present value of the pension obligation depends on a number of factors, determined on an actuarial basis, using a number of assumptions. The assumptions used in determining the valuation of the pension obligation include the discount rate of 2.65% (2017: 2.5%), the inflation rate of 3.0% (2017: 3.0%) and the mortality rates. The discount rate is determined by considering the market yields on high quality corporate bonds, at the reporting date. Other assumptions are based on current market conditions. Various sensitivities have been modelled in note 20.

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model, as described in note 1. Value in use is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The discount rate applied is 8%. A long term RPI rate has been adopted of 3.0% (2017: 3.0%) which is based on the 2% government CPI target plus a 1% estimate of the wedge between RPI and CPI. A decrease in inflation of 25bps would result in a reduction to the valuation of £176m, and a reduction in the discount rate of 25bps would result in a reduction to the valuation of £255m.

Goodwill impairment testing

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. These calculations include estimates of future cash flows for the cash generating unit, and an estimate of the discount rate, which is based on consideration of the long-term risk-free interest rate for the UK, an industry specific risk factor, and a market risk premium at the date of valuation.

In reviewing goodwill for impairment, the group applied a discount rate of 5.4% (2016/17: 5.75%) and a long-term inflation rate of 3% (2016/17: 3%) to the expected future cash flows of the group. On this basis, there is sufficient headroom, and no impairment is required. Further information regarding this impairment test can be found in note 11.

2. Accounting policies *(continued)*

Fair value of financial instruments

The company's accounting policy for financial instruments is detailed on page 102. In accordance with IFRS, financial instruments are recognised in the Financial Statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting period, counter-party funding adjustments and contract interest rates, discounted at a rate that reflects own or counter-party credit risk. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 22. Particular estimation uncertainty exists in relation to counter-party funding adjustments and own and counter-party credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of financial instruments would be £29.7m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £43.4m higher or lower were the credit curve assumption to change by 10 basis points. The fair value of financial instruments would be £69.7m higher or lower were the recovery rate assumption to change by 10 basis points.

The directors consider the principal judgements made in the Financial Statements to be:

Capitalisation of labour costs

Additions made to property, plant and equipment include £52.5m (2016/17: £43.5m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

Depreciation

The Company's accounting policy for property, plant and equipment ('PPE') is detailed on page 95. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

Recognition of a defined benefit surplus

A judgement has been made to recognise an accounting surplus on the defined benefit pension scheme. IFRIC 14 has been considered and has not been applied. The Trust Deed provides the sponsoring employer with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of, the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

3 Segmental information

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

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

Transfer prices between business segments are set on an arm’s length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results do not include transfers between business segments.

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

3. Segmental information *(continued)*

Year ended 31 March 2018

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	1,026.7	191.1	7.7	97.7	1,323.2	(7.1)	1,316.1
Inter-company revenue	(4.3)	(95.8)	(0.6)	100.7	-	-	-
External revenue	**1,022.4**	**95.3**	**7.1**	**198.4**	**1,323.2**	**(7.1)**	**1,316.1**
Depreciation	(286.1)	(1.3)	-	(14.3)	(301.7)	-	(301.7)
Amortisation of deferred grant income	10.0	-	-	-	10.0	-	10.0
Other operating costs	(428.0)	(104.5)	(5.4)	(193.6)	(731.5)	7.1	(724.4)
Exceptional costs (notes 5 and 9)	(8.1)	(0.2)	-	23.3	15.0	-	15.0
	310.2	**(10.7)**	**1.7**	**13.8**	**315.0**	**-**	**315.0**
Share of associates' and joint ventures' loss after tax					-	-	(0.1)
Group operating profit					**315.0**	**-**	**314.9**
Finance income							49.2
Finance costs							(459.9)
Exceptional items in finance income							115.4
Exceptional items in finance costs							(74.4)
Loss before taxation							**(54.8)**
Tax charge							(10.1)
Loss for the year attributable to owners of the parent							**(64.9)**

3. Segmental information *(continued)*

In November 2016, the group classified 10 entities that make up the majority of the UK service operations segment as a discontinued operation (see note 9). The CODM continues to monitor and review the financial results of the discontinued operation and will do so until the sales are complete. The results of the discontinued operations are disclosed within the UK service operations and the UK regulated water services segments.

3. Segmental information *(continued)*

Year ended 31 March 2018

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	7,955.2	61.4	10.6	1,738.3	9,765.5
Liabilities	(2,940.6)	(49.0)	(1.3)	(116.5)	(3,107.4)
Net debt	(4,841.2)	(20.8)	-	(1,638.8)	(6,500.8)
Net assets/(liabilities)	**173.4**	**(8.4)**	**9.3**	**(17.0)**	**157.3**
Other information					
Capital additions	**446.4**	**0.2**	**-**	**-**	**446.6**

Net debt of £6,500.8m as noted above includes cash of £35.7m and short term deposits of £54.0m which are included in the balance sheet within total assets (£24.1m in assets held for sale (note 16)); and borrowings of £6,590.5m which are included on the balance sheet in total liabilities (£48.4m in assets held for sale (note 16)). Net debt is defined in note 22, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £1,329.2m of loan notes issued by Kelda Eurobond Co Limited.

There are no material assets of the group located outside the United Kingdom in the year ended 31 March 2018, this being the case the group has one single geographical segment, being the United Kingdom.

3. Segmental information _(continued)_

Year ended 31 March 2017

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	997.3	155.4	5.2	11.3	1,169.2	(4.6)	1,164.6
Inter-company revenue	(4.9)	(55.8)	(0.6)	-	(61.3)	-	(61.3)
External revenue	**992.4**	**99.6**	**4.6**	**11.3**	**1,107.9**	**(4.6)**	**1,103.3**
Depreciation	(273.5)	(16.5)	-	(0.3)	(290.3)	-	(290.3)
Amortisation of deferred grant income	2.9	-	-	-	2.9	-	2.9
Other operating costs	(408.1)	(64.9)	(4.0)	(34.8)	(511.8)	4.6	(507.2)
Exceptional costs (notes 5 and 9)	31.5	(11.7)	-	-	19.8	-	19.8
	345.2	**6.5**	**0.6**	**(23.8)**	**328.5**	**-**	**328.5**
Group operating profit					**328.5**	**-**	**328.5**
Finance income							22.3
Finance costs							(427.3)
Exceptional items in finance income							54.5
Exceptional items in finance costs							(521.1)
Profit before taxation							**(543.1)**
Tax credit							112.1
Profit for the year attributable to owners of the parent							**(431.0)**

Kelda Eurobond Co Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2018

3. Segmental information *(continued)*

Year ended 31 March 2017

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	7,645.3	227.2	14.0	1,665.3	9,551.8
Investments in associates and joint ventures accounted for by the equity method	-	-	-	-	-
Liabilities	(3,136.6)	(66.7)	(1.5)	(130.7)	(3,335.5)
Net debt	(4,749.9)	(133.8)	-	(1,355.3)	(6,239.0)
Net assets	**(241.2)**	**26.7**	**12.5**	**179.3**	**(22.7)**
Other information					
Capital additions	**385.9**	**14.0**	**-**	**(4.2)**	**395.7**

Net debt of £6,239.0m as noted above includes cash of £231.6m and short term deposits of £44.5m which are included in the balance sheet within total assets; and borrowings of £6,515.1m which are included on the balance sheet in total liabilities.Net debt is defined in note 22, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £1,235.3m of loan notes issued by Kelda Eurobond Co Limited.

There were no material assets of the group located outside the United Kingdom in the year ended 31 March 2017, this being the case the group has one single geographical segment, being the United Kingdom.

4. Operating costs from continuing operations before exceptional items

	2018 £m	2017 £m
Own work capitalised	**(52.5)**	(43.5)
Raw materials and consumables	**36.1**	30.5
Staff costs (note 6)	**145.4**	142.9
Depreciation of property, plant and equipment and impairment (note 13)	**301.0**	290.3
Operating lease rentals - minimum lease payments		
- plant and equipment	**1.8**	1.9
- other	**2.4**	1.5
Amortisation of intangible assets (note 11)	**9.8**	7.4
Research and development	**4.8**	5.5
Movement of fair value of energy contracts	**(14.4)**	(3.6)
Net Impairment of trade receivables	**19.7**	19.7
Profit on disposal of property, plant and equipment	**-**	(0.6)
Other operating income	**(10.4)**	(6.5)

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the group continuing activities on page 49, is calculated as follows:

	2018 £m	2017 £m
Group operating profit before share of associates and joint ventures	**288.1**	311.2
Add back exceptional items (note 5)	**(15.2)**	(31.5)
Add back depreciation and impairment	**301.0**	287.5
Add back amortisation of intangible assets (as above)	**9.8**	7.4
EBITDA from continuing operations excluding exceptional items	**583.7**	574.6

Auditor's remuneration

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

	2018 £m	2017 £m
Fees payable to the group's auditors for other services:		
- The audit of company's subsidiaries pursuant to legislation	**0.3**	0.3
- Fees for other services	**0.1**	-
	0.4	0.3

The amounts presented in the 2017 column relate to services provided by the previous auditor, for the 2016/17 year.

5. Exceptional items

Exceptional items from continuing operations comprise:

	2018 £m	2017 £m
Included in operating costs:		
Profit on sale of operations	**28.2**	-
Insurance receipt	**-**	46.0
Operating costs	**(8.1)**	(17.9)
(Impairment)/reversal of impairment	**(4.9)**	3.4
	15.2	31.5
Included in finance income		
Movement of fair value of inflation linked swaps	**39.0**	-
Movement in fair value of cross currency debt	**50.9**	-
Movement of fair value of combined cross currency interest rate swaps	**-**	41.5
Movement of fair value of fixed to floating interest rate swaps	**-**	13.0
Movement in fair value of debt associated with fixed to floating swaps	**21.5**	-
Movement in fair value of finance lease interest rate swaps	**4.0**	-
	115.4	54.5
Included in finance costs		
Movement of fair value of inflation linked swaps	**(10.1)**	(453.4)
Movement of fair value of finance lease interest rate swaps	**-**	(0.3)
Movement in fair value of combined cross currency interest rate swaps	**(47.7)**	-
Movement of fair value of cross currency debt	**-**	(37.4)
Movement of fair value of debt associated with fixed to floating interest rate swaps	**-**	(30.0)
Movement in fair value of fixed to floating interest rate swaps	**(16.2)**	-
Movement in fair value of floating to fixed interest rate swaps	**(0.4)**	-
	(74.4)	(521.1)

The directors have assessed goodwill for impairment and ascertained that there was no impairment of goodwill (2016/17: £nil) for the year ended 31 March 2018.

Exceptional operating costs

Exceptional operating costs relate to the flooding incident that occurred in December 2015. In this year the group has incurred £8.1m operational costs associated with the assets damaged in this event. These have been classified as exceptional in order to be consistent with the presentation of the related insurance income (received 2016/17). These costs are taxable, and have resulted in a cash outflow.

£28.2m of income has been recognised as profit on the sale of disposal of the Kelda Water Services (KWS) entities sold during the year. These items have been classified as exceptional, as they relate to an event outside the normal course of operations. The profit on disposal is taxable and the cash impact can be seen in the cashflow statement.

5. Exceptional items (continued)

During the financial year, the group sold its 100 per cent interest in the ordinary share capital of 8 entities within the Kelda Water Services group (Kelda Water Services (Alpha) Limited, Dalriada Water Limited, Kelda Water Services (Defence) Limited, Kelda Water Services (Estates) Limited, Alauna Renewable Energy Limited, Kelda Organic Energy Limited, Kelda Organic Energy (Cardiff) Limited, Kelda Organic Energy (Edinburgh) Limited). The total profit of these entities up to the date of disposal was £96.7m.

Net assets disposed of and the related sale proceeds were as follows:

	£m
Fixed assets	
Current assets	**155.1**
Creditors	**31.6**
Provisions for liabilities	**(113.0)**
Net assets	**73.7**
Profit on sale	**28.2**
Sale proceeds	**101.9**
Satisfied by:	
Cash and cash equivalents	**101.9**
Net cash inflows in respect of the sale comprised:	
Cash and cash equivalents	
Less: cash and cash equivalents disposed of	**101.9**
	(19.8)

An exceptional charge of £4.9m has been recognised with respect to an impairment to the carrying value of Kelda Water Services (Grampian) Limited. The results attributable to this entity are disclosed as held for sale. The carrying value was deemed in excess of the fair value less costs to sell, and therefore an impairment charge has been incurred. Fair value was determined based on expected consideration, which is deemed to be a level 2 valuation, due to the lack of an active market in this area. This item has been classified as exceptional as it relates to a one-off event, outside the course of normal business. There are no tax or cashflow effects.

Inflation linked swaps have been valued at the reporting date at fair value, which at 31 March 2018 resulted in a £1,926.2m liability (2016/17: £2,156.5m liability). Of this, £1,754.1m (2016/17: £2,033.0m) is recognised within other financial liabilities (note 22) and £172.1m (2016/17: £123.5m) is recognised within long-term borrowings (note 15).

This financial year has seen the liability on the inflation linked swaps decrease by £278.9m, with £39.0m disclosed in note 5 as an exceptional item. Of this amount, £57.4m relates to the year end increase in the fair value amount, offset by £18.4m that relates to an inflation linked swap restructuring transaction that occurred during December 2017 and referenced below.

5. Exceptional items (continued)

During the financial year, the terms of a proportion of Yorkshire Water's inflation linked swaps were amended as follows:

- In June 2017, Yorkshire Water completed a transaction to restructure the terms of swaps with a notional value of £147.9m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £19.3m per annum for fifteen years, with £9.7m receivable semi-annually at a debt costs of £250m and with the first amount of £9.7m received August 2017. As a result of the recouponing transaction, the negative fair value of the inflation linked swap portfolio improved (i.e. reduced) by £239.9m on 22 June 2017, being the date of completion of the transaction and resulted in a loss on modification of £10.1m shown in the exceptional note above.
- In December 2017, Yorkshire Water completed a transaction to restructure and extend swaps with a notional value of £225.5m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £10.4m per annum for ten years, with £5.2m receivable semi-annually with the first amount of £5.2m received February 2018. As a result of the recouponing transaction, the negative fair value of the inflation linked swap portfolio improved (i.e. reduced) by £18.4m on 21 December 2017, being the date of completion of the transaction.

For further information on the company's inflation linked swaps see note 22.

Movement in the fair value of combined cross currency interest rate swaps

The group holds a number of combined cross currency interest rate swaps which have been designated in fair value hedge relationships and have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2018. The net impact of the fair value movement of the combined cross currency interest rate swaps and the associated bonds has resulted in £3.2m of income (2016/17: £4.1m income) to the profit and loss account.

For further information on the company's combined cross currency interest rate swaps see note 22.

Movement in the fair value of finance lease swaps

The group has two floating to fixed interest rate swaps that have been taken out by the company to hedge against movements in the 12 month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2018 resulted in a £21.3m liability (2016/17: £25.3m liability). The year on year decrease of the liability of £4.0m (2016/17: £0.3m increase in liability) has been recognised as an exceptional finance cost. This has been included in the profit and loss account as the specific circumstances which would allow it to be held in reserves were no longer met. The interest charged or credited to the profit and loss account in relation to these swaps is shown in note 7.

For further information on the company's finance lease swaps see note 22.

Movement in the fair value of fixed to floating interest rate swaps

The group holds a number of fixed to floating interest rate swaps which are designated as fair value hedge relationships and have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 31 March 2018. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £5.3m of income (2016/17: £16.9m charge) to the profit and loss account.

For further information on the company's fixed to floating interest rate swaps see note 22.

Movement in the fair value of floating to fixed interest rate swaps

The group holds a number of floating to fixed interest rate swaps which are designated as cash flow hedge relationships and have been valued at the reporting date at fair value at 31 March 2018. The net impact of the fair value movement of the floating to fixed interest rate swaps and the associated bonds has resulted in £0.4m charge (2016/17 £nil) to the profit and loss account.

Fair value movements have no effect on cash, but do have a deferred tax impact.

6. Directors and employees

	2018 Continuing operations	**2018 Discontinued operations**	**2018 Total**	2017 Continuing operations	2017 Discontinued operations	2017 Total
Average monthly number of people employed by the group						
UK regulated water services	**2,681**	**-**	**2,681**	2,605	-	2,605
Other activities	**840**	**252**	**1,092**	850	219	1,069
	3,521	**252**	**3,773**	3,455	219	3,674

	2018 £m	**2018 £m**	**2018 £m**	2017 £m	2017 £m	2017 £m
Total employment costs:						
Wages and salaries	**121.5**	**9.0**	**130.5**	116.9	7.5	124.4
Social security costs	**12.5**	**0.9**	**13.4**	12.3	0.9	13.2
Other pension costs	**11.4**	**0.5**	**11.9**	13.7	0.7	14.4
	145.4	**10.4**	**155.8**	142.9	9.1	152.0

	2018 £m	2017 £m
Aggregate emoluments	**1.8**	2.0
	1.8	2.0

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

	2018 £m	2017 £m
Aggregate emoluments	**0.9**	1.1
	0.9	1.1

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

During the year ended 31 March 2018, one (2017: one) director was a contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in the year ended 31 March 2018, was £0.2m (2017: £0.2m).

During the year ended 31 March 2018, two (2017: two) directors were incentivised through a long term incentive plan which allows them to receive, at the discretion of the Remuneration Committee, a conditional monetary award.

7. Finance income and finance costs

	2018 £m	2017 £m
Finance income		
Interest on bank deposits	**0.1**	0.3
Interest receivable from inflation linked swaps	**33.1**	7.8
Interest receivable from cross currency interest rate swaps	**13.0**	11.4
Interest receivable from parent company	**3.0**	2.7
Finance income before exceptional items	**49.2**	22.2
Exceptional finance income (note 5)	**115.4**	54.5
Total finance income	**164.6**	76.7
Finance costs		
Interest payable on guaranteed bonds	**(152.0)**	(161.4)
Interest payable on US Dollar bonds	**(11.3)**	(8.8)
Interest payable on AU Dollar bonds	**(2.0)**	(2.0)
Amortisation of issue costs in respect of bonds	**(3.3)**	(2.6)
Total finance costs for bonds	**(168.6)**	(174.8)
Bank loans and overdrafts	**(28.6)**	(23.4)
RPI accretion on inflation linked bonds	**(103.2)**	(75.7)
Interest payable on inflation linked swaps	**(43.6)**	(41.1)
Interest payable on bonds issued by Kelda Eurobond Co Limited	**(94.8)**	(89.5)
Finance leases	**(6.2)**	(6.0)
Change in fair value of financial assets	**-**	(2.4)
Net interest cost on pension scheme liabilities (note 20)	**-**	2.5
Commitment fees and miscellaneous interest	**(9.6)**	(7.2)
Finance costs before interest capitalisation and exceptional items	**(454.6)**	(417.6)
Interest capitalised	**14.3**	14.1
Finance costs before exceptional items	**(440.3)**	(403.5)
Exceptional finance cost (note 5)	**(74.4)**	(521.1)
Total finance cost	**(514.7)**	(924.6)

For more information on guaranteed, US Dollar and AU Dollar bonds refer to note 15.

	2018 £m	2017 £m
Finance income		
Financial liabilities held at fair value through profit and loss	**161.5**	73.7
Interest on bank deposits and loans	**3.1**	3.0
Total finance income	**164.6**	76.7
Finance costs		
Financial liabilities held at fair value through profit and loss	**(197.2)**	(616.0)
Financial liabilities held at amortised cost	**(155.3)**	(161.6)
Interest on bank deposits and loans	**(162.2)**	(147.0)
Total finance costs for bonds	**(514.7)**	(924.6)

8. Tax charge/(credit) on continuing operations

	2018 £m	2017 £m
Current tax		
UK Corporation Tax at 19% (2017: 20%)	**0.6**	-
Adjustments in respect of prior years	**(0.2)**	-
Total current tax charged to the income statement	**0.4**	-
Deferred tax		
Origination and reversal of temporary differences	**8.8**	(103.7)
Adjustments in respect of prior years	**1.2**	(1.8)
Effect of change in tax rates	**(0.9)**	(9.2)
Total deferred charge/(credit) to the income statement	**9.1**	(114.7)
Total tax charge/(credit) to the income statement	**9.5**	(114.7)
Tax relating to items charged to other comprehensive income		
Deferred tax:		
Actuarial losses/(gains) in respect of defined benefit pension schemes	**9.1**	(8.8)
Movement in fair value hedges	**0.1**	0.7
Revaluation of infrastructure assets	**33.9**	45.1
Tax charge in the group statement of comprehensive income	**43.1**	37.0

Movement in fair value hedges of £0.1m is charged on hedges relating to continuing operations. An additional £2.9m of deferred tax is included within the statement of comprehensive income for tax charged on movement in fair value hedges. This tax is charged on hedges relating to discontinued operations .

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2017: 20%) to the loss on ordinary activities before tax is as follows:

	2018 £m	2017 £m
Loss from continuing operations before taxation	**(62.1)**	(536.7)
Share of associates' and joint ventures' loss before tax	**(0.1)**	-
	(62.2)	(536.7)
Current and deferred tax on Group loss on ordinary activities at the standard UK tax rate	**(11.8)**	(107.3)
Effects of:		
Expenses not deductible for tax purposes	**43.3**	9.1
Income not chargeable for tax purposes	**(26.5)**	(5.5)
Change in deferred tax rate	**(1.0)**	(9.2)
Adjustments in respect of prior years	**1.0**	(1.8)
Other timing differences	**4.5**	-
Group current and deferred tax charged/(credited) to the income statement	**9.5**	(114.7)

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements. (2016/17: 20%)
The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016 and accordingly the deferred tax liability at 31 March 2018 has been calculated using this rate.
The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & Custom's agreement of the basis on which the group's tax returns are filed. In assessing these tax uncertainties, management is required to make judgements, evaluating the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that will be necessary to provide. The nature of the group's uncertain tax positions can relate to complex tax legislation that can be open to interpretation. Original estimates are always refined as additional information becomes known.

8. Tax charge/(credit) *(continued)*

Any uncertain tax positions are assessed using internal expertise, experience and judgment together with assistance and opinions from professional advisors. The deferred tax credit for continuing operations for the year reflected in the income statement relates to the following:

	2018	2017
	£m	£m
Property, plant and equipment	**(4.1)**	(50.1)
Financial instruments	**12.1**	(62.7)
Retirement benefit obligations	**4.3**	(1.9)
Losses	**(3.2)**	-
Deferred tax charge/(credit)	**9.1**	(114.7)

9. Discontinued operation

In November 2016 the group classified ten entities that make up the majority of the Kelda water services Group which is in the UK Service Operations operating segment as held for sale (see note 16). During the year, eight of these entities were sold.

During 2017/18, the group classified the three ThreeSixty entities as held for sale, as well as the non-household retail element of Yorkshire Water Services. The segment was not previously classified as held for sale or as a discontinued operation. The comparative income statement and statement of other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

Results from discontinued operations

	2018	2017
	£m	£m
Revenue	**373.8**	161.0
Elimination of intersegment revenue	**(63.9)**	(61.9)
Total Revenue	**309.9**	99.1
Expenses	**(353.4)**	(127.3)
Exceptional items	**(0.2)**	(11.7)
Elimination of expenses relating to inter segment sales	**70.6**	57.3
Finance expenses	**(12.9)**	(15.0)
External interest	**(6.7)**	(8.8)
Total expenses	**(302.6)**	(105.5)
Profit/(loss) before tax	**7.3**	(6.4)
Income tax expense	**(0.6)**	(2.6)
Profit/(loss) after tax	**6.7**	(9.0)

Included in operating costs is an exceptional item of £nil (2016/17: £11.6m) for the cost of meeting contractual obligations at the Aberdeen site.
The profit/(loss) after tax from the discontinued operations of £6.7m (2016/17: (£9.0m)) is attributable entirely to the owners of the company.

Cash flows from discontinued operations

	2018	2017
	£m	£m
Net cash used in operating activities	**10.1**	30.6
Net cash outflow from investing activates	**(7.2)**	(15.1)
Net cash (outflow)/inflow from financing activities	**(3.6)**	(11.8)
Net cash flows for the year	**(0.7)**	3.4

10. Dividends

Dividends of £nil, nil pence per share, were paid during the year (2017: £8.2m, 1.09 pence per share).

11. Intangible assets

	Intangible rights under concession contracts £m	Capitalised bid costs £m	Software £m	Goodwill £m	Total £m
Cost					
At 31 March 2016	79.8	15.9	31.0	1,800.3	1,927.0
Additions	1.4	-	31.4	-	32.8
Transfer to assets held for sale (note 16)	(81.2)	(15.9)	-	-	(97.1)
At 31 March 2017	-	-	62.4	1,800.3	1,862.7
Additions	-	-	14.3	-	14.3
Transfer from property, plant and equipment	-	-	3.6	-	3.6
Transfer to assets held for sale (note 16)	-	-	(1.3)	-	(1.3)
Disposals	-	-	(1.4)	-	(1.4)
At 31 March 2018	**-**	**-**	**77.6**	**1,800.3**	**1,877.9**
Accumulated amortisation					
At 1 April 2016	10.0	7.2	4.9	400.0	422.1
Amortisation	1.7	0.7	7.4	-	9.8
Transfer to assets held for sale (note 16)	(11.7)	(7.9)	-	-	(19.6)
At 31 March 2017	-	-	12.3	400.0	412.3
Amortisation	-	-	9.8	-	9.8
Transfer to assets held for sale (note 16)	-	-	(0.8)	-	(0.8)
Disposals	-	-	(1.4)	-	(1.4)
At 31 March 2018	**-**	**-**	**19.9**	**400.0**	**419.9**
Net book value carried forward	**-**	**-**	**57.7**	**1,400.3**	**1,458.0**
Net book value brought forward	-	-	50.1	1,400.3	1,450.4

Intangible rights under concession contracts arose on the acquisition of Aberdeen Environmental Services Limited (AES) by Kelda Non Reg Holdco Limited on 23 April 2010. This consisted of 50% of the ordinary share capital of AES, which added to the 50% already held by Kelda Water Services Limited, brought the group's ownership to 100%.
On acquisition the fair value of intangible rights arising under concession contracts, in line with IFRIC 12, was £64.9m.

11. Intangible assets *(continued)*

Impairment tests for goodwill
Existing goodwill of £1,400.3m (2016/17: £1,400.3m) is all allocated to the UK regulated water services business segment. The recoverable amount of the UK regulated water services segment is determined based on a value in use calculation, using post tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long term business modelling covering a 25 year period. The period of cash flows of 25 years is deemed appropriate as it aligns with the long term planning of the regulated business as determined by Ofwat. The discount and inflation rates applied have been determined based on risk factors specific to the industry and circumstances of the group. See note 2 for further detail.

The key assumptions, to which the amount is most sensitive, used for the value-in-use calculation are as follows:

	2018	2017
Long term inflation (post 2017)	**3.00%**	3.00%
Discount rate (post-tax)	**5.40%**	5.75%

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2018 (year ended 31 March 2017: impairment of £nil). On this basis, the headroom is £681.6m.

The long term inflation rate used is consistent with the rate used across other key areas of estimation. It is based on the government CPI target of 2% plus 1% to convert to RPI. The cash flows have been inflated by RPI, and discounted back at the same rate, as permitted under IAS 36.

The discount rate consists of appointed WACC plus inflation. The amount is sensitive to discount rate. An increase of 0.5% to the discount rate would result in the carrying amount exceeding the recoverable amount by £118m.

12. Financial assets

	2018	2017
	£m	£m
At 1 April	**-**	152.3
Additions	**-**	6.6
Movement in fair value	**-**	(11.7)
Transfer to assets held for sale (note 16)	**-**	(147.2)
	-	-

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

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

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

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

12. Financial assets *(continued)*

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

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

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

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

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

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

13. Property, plant and equipment

Grants and contributions	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2017	2,014.8	4,403.6	3,372.1	389.0	10,179.5
Additions at cost	8.5	57.5	88.3	292.3	446.6
Grants and contributions	-	-	(0.6)	(4.6)	(5.2)
Transfers on commissioning	23.1	55.6	52.2	(130.9)	-
Transfer to intangible assets	-	-	(3.6)	-	(3.6)
Disposals	(2.7)	-	(16.4)	-	(19.1)
Transfer to assets held for sale	-	-	(3.6)	-	(3.6)
Revaluation	(0.3)	199.9	-	-	199.6
At 31 March 2018	**2,043.4**	**4,716.6**	**3,488.4**	**545.8**	**10,794.2**
Accumulated depreciation					
At 1 April 2017	559.9	181.3	2,060.1	-	2,801.3
Charge for the year	38.1	82.5	179.4	-	300.0
Impairment	1.0	-	-	-	1.0
Transfer to assets held for sale			(2.7)	-	(2.7)
Disposals	(4.0)	-	(4.8)	-	(8.8)
At 31 March 2018	**595.0**	**263.8**	**2,232.0**	**-**	**3,090.8**
Net book amount at 31 March 2018	**1,448.4**	**4,452.8**	**1,256.4**	**545.8**	**7,703.4**

During the year the group capitalised borrowing costs amounting to £14.3m (2017: £11.7m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.49% (2017:3.72%).

Esholt Hall was impaired down to fair value less costs to sell. The fair value was established by an independent surveyor, and would be considered a level 2 valuation.

13. Property, plant and equipment *(continued)*

	Land and Buildings £m	**Infrastructure assets £m**	**Plant and equipment £m**	**Under construction £m**	**Group total £m**
Cost or valuation					
At 1 April 2016	2,003.7	4,045.9	3,338.5	236.2	9,624.3
Additions at cost	9.4	42.6	85.7	258.0	395.7
Transfers on commissioning	25.9	37.2	26.7	(89.8)	-
Grants and contributions	-	-	-	(15.4)	(15.4)
Disposals	(24.2)	(1.9)	(78.8)	-	(104.9)
Revaluation	-	279.8	-	-	279.8
At 31 March 2017	**2,014.8**	**4,403.6**	**3,372.1**	**389.0**	**10,179.5**
Accumulated depreciation					
At 1 April 2016	530.4	105.4	1,982.5	-	2,618.3
Charge for the year	52.8	77.8	159.7	-	290.3
Impairment	-	-	(3.4)	-	(3.4)
Disposals	(23.3)	(1.9)	(78.7)	-	(103.9)
At 31 March 2017	**559.9**	**181.3**	**2,060.1**	**-**	**2,801.3**
Net book amount at 31 March 2017	**1,454.9**	**4,222.3**	**1,312.0**	**389.0**	**7,378.2**

Assets included above held under finance leases amount to:

	Land and buildings £m	**Infrastructure assets £m**	**Plant and equipment £m**	**Group total £m**
Cost	28.4	71.3	74.5	**174.2**
Depreciation	(9.6)	(30.7)	(60.1)	**(100.4)**
Net book amount at 31 March 2018	**18.8**	**40.6**	**14.4**	**73.8**
Net book amount at 31 March 2017	62.7	41.7	16.8	121.2

13. Property, plant and equipment *(continued)*

The group's infrastructure assets were valued at 31 March 2018. These valuations were performed in accordance with IAS 16 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

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

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

The valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation of £199.9m (2016/17: £279.8m), before deferred tax and adjustment for historical depreciation, has been recognised in the year.

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

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

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

These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. The valuations carried out at 31 March 2014 have been considered at 31 March 2018 by the directors, who concluded that current book values are not materially different to current market values.

Categories of assets revalued as at 31 March 2018 are as follows:

	Revalued amount £m	**Historical cost basis £m**
Infrastructure assets	4,452.8	3,798.4
Non-specialist properties	15.2	13.8
Rural estates	56.1	0.5
6Residential properties	2.3	-
Net book amount of assets revalued	**4,526.4**	**3,812.7**

13. Property, plant and equipment *(continued)*

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

	Revalued amount £m	Historical cost basis £m
1 April 2016	78.1	15.3
Disposal of revalued assets	(0.8)	-
Depreciation incurred on revaluation	(0.7)	(0.4)
1 April 2017	76.6	14.9
Disposal of revalued assets	(0.8)	-
Depreciation incurred on revaluation	(2.2)	(0.6)
31 March 2018	**73.6**	**14.3**

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

	Revalued amount £m	Historical cost basis £m
At valuation/cost	4,716.6	4,062.2
Aggregate depreciation	(263.8)	(263.8)
Net book amount of assets revalued	**4,452.8**	**3,798.4**

14. Trade and other receivables

	2018	2017
	£m	£m
Amounts falling due within one year:		
Trade receivables	**114.8**	133.5
Provision for impairment of trade receivables	**(35.0)**	(31.9)
	79.8	101.6
Prepayments and accrued income	**65.7**	71.7
Amounts owed by parent company	**0.6**	0.6
Other tax and social security	**12.6**	19.3
Other receivables	**0.6**	19.3
	159.3	212.5
Amounts falling due in more than one year:		
Amounts owed by parent company	**129.3**	121.8

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

Trade and other receivables totalling £68.6m as at 31 March 2018 (2016/17: £17.1m) have been transferred to assets held for sale (note 16). This represents trade receivables of £51.4m (2016/17: £5.0m) due in less than one year, plus £17.2m (2016/17:£12.1m) Prepayments and accrued income due in less than one year.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables is 41.4 days (2016/17: 48.5 days).

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

14. Trade and other receivables *(continued)*

Trade receivables can be analysed as follows:

	2018 £m	2017 £m
Main charges trade receivables:		
Current	**0.6**	0.6
Past due but not impaired	**76.4**	96.2
Past due and impaired	**33.7**	30.8
Other trade receivables:		
Past due but not impaired	**2.8**	4.8
Past due and impaired	**1.3**	1.1
	114.8	133.5

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

	2018 £m	2017 £m
Main charges trade receivables:		
Less than one year overdue	**55.9**	75.4
Between one and two years overdue	**14.4**	15.2
Between two and three years overdue	**5.3**	5.4
Between three and four years overdue	**0.8**	0.2
Other trade receivables:		
Less than one year overdue	**2.8**	4.8
	79.2	101.0

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

	2018 £m	2017 £m
Main charges trade receivables:		
Less than one year overdue	**11.0**	9.5
Between one and two years overdue	**7.2**	6.3
Between two and three years overdue	**5.8**	5.1
Between three and four years overdue	**5.0**	5.1
More than four years overdue	**4.7**	4.8
Other trade receivables:		
Less than one year overdue	**1.3**	1.1
	35.0	31.9

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

	2018 £m	2017 £m
Provision brought forward	**31.9**	29.6
Charge in the year	**19.6**	29.3
Cash receipts	**0.4**	(9.5)
Amounts written off	**(16.9)**	(16.9)
Transfer to Assets held for sale (note 16)	**-**	(0.6)
Provision carried forward	**35.0**	31.9

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

15. Financing

(i) Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents	**31.5**	231.6
Short term deposits	**34.1**	44.5
	65.6	276.1

At 31 March 2018, the group had available £649.0m (2017: £814.8m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2018 £m	2017 £m
Current borrowings:		
Bank borrowings	**47.9**	70.6
Bank borrowings under Kelda Finance facility	**-**	65.0
Finance lease liabilities	**12.6**	11.0
Other borrowings	**220.0**	25.0
	280.5	171.6

	2018 £m	2017 £m
Non-current borrowings:		
Bank borrowings	**371.2**	427.7
Fixed rate guaranteed bonds due in less than 5 years	**797.6**	534.2
Fixed rate guaranteed bonds due in more than 5 years	**1,944.4**	2,229.0
Inflation linked guaranteed bonds due in more than 5 years	**1,199.1**	1,146.0
RPI uplift on inflation linked swaps	**172.1**	123.5
Fixed rate US Dollar bonds due in less than 5 years	**192.5**	220.4
Fixed rate US Dollar bonds due in more than 5 years	**125.7**	145.0
Fixed rate AUS Dollar bonds due in more than 5 years	**29.6**	33.1
Bonds issued by Kelda Eurobond Co Limited	**1,329.2**	1,235.3
Finance lease liabilities	**100.2**	112.8
	6,261.6	6,207.0

15. Financing *(continued)*

(ii) Borrowings *(continued)*

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

6% guaranteed bonds 2019 £274.7m (2017: £274.5m)
These bonds are repayable in one amount on 21 August 2019.Interest is charged at 6%.

6.5876% guaranteed bonds 2023 (Exchange bonds) £206.2m (2017: £206.4m)
These bonds are repayable in one amount on 21 February 2023. Interest is charged at 6.5876%.

5.375% guaranteed bonds 2023 (Stranded bonds) £5.2m (2017: £4.9m)
These bonds are repayable in one amount on 21 February 2023. Interest is charged at 5.375%.

5.75% guaranteed bonds 2020 £198.7m (2017: £198.3m)
These bonds were taken out on 6 February 2013 and are repayable in one amount on 17 February 2020. Interest is charged at 5.75%.

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

3.75% guaranteed bonds 2046 £190.7m (2017: £190.7m)
These bonds are repayable in one amount on 22 March 2046. Interest is charged at 3.75%

5.5% guaranteed bonds 2027 (Stranded bonds) £6.6m (2017: £6.5m)
These bonds are repayable in one amount on 28 May 2027. Interest is charged at 5.5%.

6.454% guaranteed bonds 2027 (Exchange bonds) £130.3m (2017: £130.7m)
These bonds are repayable in one amount on 28 May 2027. Interest is charged at 6.454%.

6.6011% guaranteed bonds 2031 (Exchange bonds) £256.5m (2017: £254.5m)
These bonds are repayable in one amount on 17 April 2031. Interest is charged at 6.6011%.

6.625% guaranteed bonds 2031 (Stranded bonds) £0.8m (2017: £0.8m)
These bonds are repayable in one amount on 17 April 2031. Interest is charged at 6.625%.

5.5% guaranteed bonds 2037 £185.3m (2017: £184.7m)
These bonds are repayable in one amount on 28 May 2037. Interest is charged at 5.5%.

6.375% guaranteed bonds 2039 £303.8m (2017: £304.3m)
These bonds are repayable in one amount on 19 August 2039. Interest is charged at 6.375%.

3.625% guaranteed bonds 2029 £273.7m (2017: £288.7m)
These bonds were issued on 1 August 2012 are repayable in one amount on 1 August 2029. Interest is charged at 3.625%.

4.965% Class B guaranteed bonds 2033 £103.4m (2017: £105.2m)
These bonds were issued in May 2013 and are repayable in one instalment on 12 December 2033. Interest is charged at 4.965%.

3.54% guaranteed bonds 2029 £100.8m (2017: £104.3m)
These bonds were issued on 30 October 2014 and are repayable in one amount on 30 October 2029. Interest is charged at 3.54%.

2.03% guaranteed bonds 2028 £59.8m (2017: £59.8m)
These bonds were issued on 22 September 2016 and are repayable in one amount on 22 September 2028. Interest is charged at 2.03%.

15. Financing *(continued)*

(ii) Borrowings *(continued)*

2.14% guaranteed bonds 2031 £49.8m (2017: £49.8m)
These bonds were issued on 22 September 2016 and are repayable in one amount on 22 September 2031. Interest is charged at 2.14%.

2.21% guaranteed bonds 2033 £49.8m (2017: £49.8m)
These bonds were issued on 22 September 2016 and are repayable in one amount on 22 September 2033. Interest is charged at 2.21%.

2.30% guaranteed bonds 2036 £39.8m (2017: £39.8m)
These bonds were issued on 22 September 2016 and are repayable in one amount on 22 September 2036. Interest is charged at 2.30%.

2.30% guaranteed bonds 2036 £49.8m (2017: £49.8m)
These bonds were issued on 7 November 2016 and are repayable in one amount on 22 September 2036. Interest is charged at 2.30%.

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

3.3066% inflation linked guaranteed bonds 2033 (Exchange bonds) £174.5m (2017: £168.6m)
These bonds are repayable in one amount on 29 July 2033. Interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.718% inflation linked guaranteed bonds 2039 £348.4m (2017: £335.6m)
These bonds are repayable in one amount on 30 December 2039. Interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.16% inflation linked guaranteed bonds 2041 £57.8m (2017: £55.4m)
These bonds are repayable in one amount on 30 December 2041. Interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.8225% inflation linked guaranteed bonds 2050 £76.8m (2017: £73.0m)
These bonds are repayable in one amount on 1 February 2050. Interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.462% inflation linked guaranteed bonds 2051 £135.9m (2017: £127.9m)
These bonds are repayable in one amount on 1 August 2051. Interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.758% inflation linked guaranteed bonds 2054 £98.3m (2017: £93.3m)
These bonds are repayable in one instalment on 1 February 2054.The interest is charged at 1.758% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.46% inflation linked guaranteed bonds 2056 £137.6m (2017: £129.8m)
These bonds are repayable in one amount on 1 August 2056. Interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.709% inflation linked guaranteed bonds 2058 £113.2m (2017: £107.3m)
These bonds are repayable in one amount on 1 February 2058. Interest is charged at 1.709% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.803% inflation linked guaranteed bonds 2042 £57.5m (2017: £55.1m)
These bonds were issued on 22 May 2012 are repayable in one amount on 22 May 2042. Interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

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

15. Financing *(continued)*

(ii) Borrowings *(continued)*

Fixed rate US Dollar bonds

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

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

The above bonds were issued on 13 December 2011.

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

The above bonds were issued on 5 January 2012.

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

15. Financing *(continued)*

(ii) Borrowings *(continued)*

Fixed rate Australian Dollar bonds

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

Bank loans

Bank loans within long term borrowings relates to:

- facilities held with European Investment Bank, repayable as £36.0m (1 - 2 years), £63.8m (2 - 5 years) and £271.3m (more than 5 years),
- Facilities with Macquarie's repayable as £150m (more than 5 years);
- Facilities with Westbourne repayable as £50m (more than 5 years); and
- PFI loans relating to service concession contracts repayable as £nil (1 - 2 years).
- Short and long term bank loans are held in sterling and bear interest at normal commercial rates. The weighted average interest rates associated with the bank loans were 3.57% (2017: 3.460%).

Bonds issued by Kelda Eurobond Co Limited £1,329.2m (2017: £1,235.3m)

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

(iii) Finance leases

	Minimum lease payments 2018 £m	Minimum lease payments 2017 £m
Amounts payable under finance leases:		
No later than 1 year	**15.0**	65.7
Later than 1 year and no later than 5 years	**33.6**	42.3
Later than 5 years	**81.7**	86.2
	130.3	194.2
Less: future finance charges on finance lease liabilities	**(17.5)**	(70.4)
Present value of lease obligations	**112.8**	123.8
Amount due for settlement within 12 months	**12.6**	11.0
Amount due for settlement after 12 months	**100.2**	112.8
	112.8	123.8

The weighted average lease term is 16.6 years (2017: 16.8 years). For the year ended 31 March 2018 the average effective borrowing rate was 1.3% (2017: 1.8%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

16 Assets held for sale

Assets and liabilities of the disposal group

At 31st March 2018 the disposal group is stated at its book value at the date it met the recognition of a disposal group held for sale. Management have assessed the fair value of the disposal group using expected selling price based on actual bids received. The fair value of the disposal group is higher than the book value and therefore the carrying amount of the disposal group in the financial statements has been presented as the book value. The disposal group comprises the following assets and liabilities:

	2018 £m	2017 £m
Intangible assets	**50.2**	77.5
Financial assets	**15.0**	147.2
Property, plant and equipment	**0.9**	-
Trade and other receivables	**68.6**	17.1
Tax assets	**0.9**	-
Inventories	**0.7**	1.0
Cash and cash equivalents	**24.1**	-
Assets held for sale	**160.4**	242.8

	2018 £m	2017 £m
Trade and other payables	**(30.5)**	(35.5)
Borrowings	**(48.4)**	(136.5)
Financial liabilities	**(10.7)**	(28.7)
Deferred income tax liabilities	**(13.5)**	(7.7)
Liabilities held for sale	**(103.1)**	(208.4)

17. Trade and other payables

	2018	2017
	£m	£m
Amounts falling due within one year:		
Trade payables	**90.5**	97.4
Capital payables	**95.5**	79.8
Social security and other taxes	**3.0**	2.0
Receipts in advance	**59.0**	58.8
Interest payable	**84.5**	95.5
Other payables	**13.4**	1.5
	345.9	335.0
Amounts falling due after more than one year:		
Interest payable	**3.8**	1.1
Other payables	**3.9**	3.5
	7.7	4.6

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

Trade and other payables totalling £30.5m (2016/17:£35.5m) (£29.3m due within one year (16/17:£20.1m), £1.2m due after more than one year (16/17: £15.4m)) have been transferred to Assets held for sale (note 16).

18 Deferred grants and contributions on depreciated assets

	2018	2017
	£m	£m
Amounts falling due in less than one year:		
Contributions to depreciated assets	**10.0**	2.9

Amounts falling due after more than one year:	**2018**	2017
	£m	£m
Contributions to depreciated assets	**433.5**	422.2

19. Deferred income tax liabilities

	Property, plant and equipment £m	Provisions £m	Losses £	Financial instruments £m	Pension obligations £m	Total £m
At 1 April 2016	790.3	3.4	(2.0)	(296.3)	10.9	506.3
Transfer	0.9	-	-	-	(0.9)	-
Credit to income statement	(47.3)	(1.5)	(1.0)	(62.6)	(1.9)	(114.3)
Charge/(credit) to equity	45.1	-	-	0.7	(8.8)	37.0
Transfer to asset held for sale	(13.6)	(1.9)	3.0	4.8	-	(7.7)
At 1 April 2017	775.4	-	-	(353.4)	(0.7)	421.3
Charge/(credit) to income statement	(7.3)	-	-	12.1	4.3	9.1
Charge/(credit) to equity	33.9	-	-	0.2	9.1	43.2
Movement in exceptional items relating to company disposals	0.8	-	-	0.1	-	0.9
At 31 March 2018	**802.8**	**-**	**-**	**(341.0)**	**12.7**	**474.5**

The group has unrecognised capital losses of £14.7m (2017: £3.9m) which are available indefinitely against future eligible capital profits of the group. No deferred tax asset has been recognised on capital losses as their utilisation is not currently foreseen.

20. Pensions

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

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

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

The majority of members paid contributions over the year ended 31 March 2018 at rates of 5%, 6%, 7%, or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The group contributed 17.0% of pensionable pay. The group also paid lump sum deficit contributions of £1.1m per month in the year to 31 March 2018.

An accrual for unfunded benefits of £10.7m has been included in the group's financial statements at 31 March 2018 (2017: £11.1m).

Risk exposure of the defined benefit scheme

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

20. Pensions _(continued)_

Inflation rate risk: The Trustees have entered into an inflation mechanism with the group. This has been entered into as part of a de-risking mandate agreed with the Pension Trustee and is aimed at reducing the volatility in future funding and contributions. The swap mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 3.0% per annum. In periods when actual inflation is higher than 3.0%, the group will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the principal subsidiary of the group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

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

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

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

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

(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.

	2018	2017
	%	%
Inflation (RPI)	**3.00**	3.10
Inflation (CPI)	**2.00**	2.10
Rate of increase in salaries	**3.00**	3.10
Discount rate for scheme liabilities	**2.65**	2.50
Life expectancy for a male pensioner aged 60 (in years)	**26.2**	26.3
Projected life expectancy at age 60 for male aged 40 (in years)	**27.8**	27.9

20. Pensions *(continued)*

(iii) Scheme assets and liabilities

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

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

	2018 £m	2017 £m
Fair value of scheme assets		
Equities	**237.6**	238.3
Bonds	**243.6**	256.7
Property	**88.5**	78.4
Other	**916.0**	908.7
Total value of scheme liabilities	**1,485.7**	1,482.1
Present value of scheme liabilities	**(1,400.9)**	(1,490.8)
Post employment benefit deficit	**84.8**	(8.7)

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

	2018 £m	2017 £m
Analysis of amount charged to operating costs:		
Current service cost	**14.3**	11.9
Net interest credit on pension scheme	**-**	(2.5)
Administrative expenses and taxes	**1.5**	2.6
Amounts charged to the income statement	**15.8**	12.0
Analysis of amounts recognised in Group statement of comprehensive income:		
Return on plan assets (excluding interest income)	**(15.5)**	(195.7)
Effect of changes in demographic assumptions	**(9.6)**	(23.7)
Effect of changes in financial assumptions	**(59.9)**	299.5
Actuarial (gain)/loss recognised in the group statement of comprehensive income	**(85.0)**	80.1
Total defined benefit (income)/cost recognised in the income statement and statement of comprehensive income	**(69.2)**	92.1

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

The total contributions to the defined benefit and defined contribution plans in the year ending 31 March 2018 are expected to be £24.3m for the group (2017: £24.9m).

20. Pensions *(continued)*

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

	2018 £m	2017 £m
Movements in the defined benefit obligation		
At 1 April	**(1,490.8)**	(1,212.6)
Current service cost	**(14.3)**	(11.9)
Interest expense	**(36.4)**	(42.1)
Remeasurements:		
Actuarial gains - demographic assumptions	**9.6**	23.7
Actuarial gains/(losses) - financial assumptions	**59.9**	(299.5)
Benefits paid	**71.1**	51.7
Plan participants' contributions	**-**	(0.1)
At 31 March	**(1,400.9)**	(1,490.8)
The total defined benefit obligation comprises:		
Amounts owing to active members	**(392.8)**	(423.8)
Amounts owing to deferred members	**(223.9)**	(278.7)
Amounts owing to retired members	**(784.2)**	(788.3)
Total defined benefit obligation at 31 March	**(1,400.9)**	(1,490.8)

	2018 £m	2017 £m
Changes in the fair value of scheme assets:		
At 1 April	**1,482.1**	1,270.7
Return on plan assets (excluding interest income)	**15.5**	195.7
Interest income	**36.4**	44.6
Employer contributions	**24.3**	25.3
Plan participants' contributions	**-**	0.1
Benefits paid	**(71.1)**	(51.7)
Administrative expenses paid from plan assets	**(1.5)**	(2.6)
At 31 March	**1,485.7**	1,482.1

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

(vi) Sensitivity analysis

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

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

20. Pensions *(continued)*

(vi) Sensitivity analysis *(continued)*

Analysis of the impact on the net balance sheet position:

	Base 2018 £m	Increase 0.25% discount rate £m	Decrease 0.25% inflation rate £m	Mortality minus one year age rating £m
Fair value of scheme assets	1,485.7	1,485.7	1,485.7	1,485.7
Present value of defined benefit obligation	(1,400.9)	(1,341.5)	(1,347.7)	(1,450.8)
Surplus in the scheme	84.8	144.2	138.0	34.9

Actuarial assumptions used in sensitivity analysis:

	Base 2018 %	Increase 0.25% discount rate %	Decrease 0.25% inflation rate %	Mortality minus one year age rating %
Discount rate	2.65	2.90	2.65	2.65
Rate of RPI assumption	3.00	3.00	2.75	3.00
Rate of CPI assumption	2.00	2.00	1.75	2.00
Rate of salary increase	3.00	3.00	2.75	3.00

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

Maturity profile of defined benefit obligation:

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

	2018 Years	2017 Years
Duration of the defined benefit obligation	17	18

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

	£m
Within 12 months	42.5
Between 1 and 2 years	43.5
Between 2 and 3 years	44.5
Between 3 and 4 years	45.5
Between 4 and 5 years	46.6
Between 5 and 10 years	249.9

20 Pensions *(continued)*

(vi) Sensitivity analysis *(continued)*

Funding arrangements

The last triennial funding valuation of the scheme was carried out at 31 March 2015 and the next valuation is due as at 31 March 2018. In the year to 31 March 2018 the group made contributions based on pensionable pay and also paid lump sum deficit recovery contributions. Funding of the scheme is also subject to the inflation mechanism entered into by KGPP in the year ended 31 March 2013. This has been entered into as part of a de-risking mandate agreed with the Trustee, including reducing equity and interest rate risks and is aimed at reducing the volatility in future funding and contributions. The swap mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 3.0% per annum. In periods when actual inflation is higher than 3.0%, the group will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the principal subsidiary of the group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

(vii) Defined contribution scheme

The group ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007. The total charged to the income statement for the defined contribution schemes for the year ended 31 March 2018 was £nil (2017: £3.0m).

21. Ordinary shares and other reserves

	Ordinary shares of 1p		Ordinary shares of £1	
	Number	1p shares £	Number	£1 shares £
Issued and fully paid				
As at 31 March 2017 and 31 March 2018	**1**	**0.01**	**750,000,000**	**750,000,000**

Also included within equity are reserves, the nature of which are as follows:

Revaluation reserve: Infrastructure assets, residential properties, specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 1 and note 13.

Hedging reserve: the group holds interest rate swaps. Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI) in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss.

The hedging gain or loss recognised in OCI is reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends. For further details, see note 1 and note 22.

22. Financial instruments

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

Net debt and associated financial instruments comprise the following:

	2018 Less than one year £m	**2018 More than one year £m**	**2018 Total £m**	2017 Less than one year £m	2017 More than one year £m	2017 Total £m
Derivative financial assets:						
Fixed to floating interest rate swaps	**-**	**45.3**	**45.3**	-	61.5	61.5
Combined cross currency interest rate swaps	**-**	**34.9**	**34.9**	-	79.8	79.8
Derivative financial instruments on energy contracts	**-**	**8.0**	**8.0**	-	-	
	-	**88.2**	**88.2**	-	141.3	141.3
Financial liabilities:						
Finance lease interest swaps	**-**	**(21.3)**	**(21.3)**	-	(25.2)	(25.2)
Inflation linked swaps	**-**	**(1,754.1)**	**(1,754.1)**	-	(2,033.0)	(2,033.0)
Combined cross currency interest rate swaps	**-**	**(4.2)**	**(4.2)**	-	(1.4)	(1.4)
Derivative financial instrument on energy contracts	**-**	**-**	**-**	-	(6.4)	(6.4)
Fixed to floating interest rate swaps	**-**	**(10.7)**	**(10.7)**	-	(0.8)	(0.8)
	-	**(1,790.3)**	**(1,790.3)**	-	(2,066.8)	(2,066.8)
Net debt:						
Cash and short term deposits	**89.7**	**-**	**89.7**	276.1	-	276.1
Borrowings	**(284.4)**	**(6,306.1)**	**(6,590.5)**	(175.2)	(6,339.9)	(6,515.1)
	(194.7)	**(6,306.1)**	**(6,500.8)**	100.9	(6,339.9)	(6,239.0)

Bank loans totalling £48.4m (£3.9m due in less than one year, £44.5m due in more than one year) and cash of £24.1m has been transferred to Assets held for sale (note 16).

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

The group has recognised a liability for the mark to market loss of £1,926.2m (2017: £2,156.5m) on inflation linked swaps. £1,754.1m (2017: £2,033.0m) is shown as inflation linked swaps as in the table above; the remaining £172.1m (2017: £123.5m) is shown within borrowings in note 15.

22. Financial instruments *(continued)*

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

The interest rate risk profile of the group's financial assets and liabilities at 31 March 2018 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Year ended 31 March 2018

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	23.7	23.1	22.6	4.9	-	-	74.3
Guaranteed bonds	120.4	584.0	92.4	92.4	507.8	2,153.4	3,550.4
US Dollar bonds	39.4	10.4	10.4	153.4	4.4	116.2	334.2
Interest rate swaps	1.5	1.3	1.1	0.9	0.7	1.3	6.7
Finance lease swaps	2.0	2.0	2.0	2.0	2.0	16.1	26.1
	187.0	620.8	128.5	253.6	514.9	2,287.0	3,991.7
Floating rate							
Inflation linked guaranteed bonds	26.6	26.6	26.6	26.6	26.6	1,811.7	1,944.7
US Dollar bonds	1.3	1.3	1.3	1.3	1.3	81.4	87.9
Guaranteed bonds	9.6	9.6	9.6	9.6	9.6	283.4	331.4
Bank loans	34.5	35.0	35.2	97.6	79.8	245.3	527.4
Combined cross currency interest rate swaps	8.0	8.3	8.3	8.3	12.0	29.4	74.3
Eurobonds issued by Kelda Eurobond Co Limited	101.4	1,530.5	-	-	-	-	1,631.9
Inflation linked swaps	50.6	98.5	56.2	151.0	115.4	1,526.2	1,997.9
Fair value interest rate swaps	10.5	11.6	11.6	11.6	11.6	137.5	194.4
Finance leases	14.9	16.8	5.7	5.6	5.6	81.7	130.3
	257.4	1,738.2	154.5	311.6	261.9	4,196.6	6,920.2
Non-interest bearing financial liabilities							
Trade payables	90.5	-	-	-	-	-	90.5
Other payables	170.8	3.9	-	-	-	-	174.7
	261.3	3.9	-	-	-	-	265.2

22. Financial instruments _(continued)_

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

Year ended 31 March 2017

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	**34.6**	**23.6**	**23.1**	**22.6**	**4.9**	**-**	**108.8**
Guaranteed bonds	**371.4**	**120.4**	**584.0**	**92.4**	**92.4**	**2,661.2**	**3,921.8**
US Dollar bonds	**11.3**	**39.4**	**10.4**	**10.4**	**153.4**	**120.6**	**345.5**
Finance lease swaps	**2.3**	**2.2**	**2.2**	**2.2**	**2.2**	**20.2**	**31.3**
	419.6	**185.6**	**619.7**	**127.6**	**252.9**	**2,802.0**	**4,407.4**
Floating rate							
Inflation linked guaranteed bonds	**24.7**	**24.7**	**24.7**	**24.7**	**24.7**	**1,704.3**	**1,827.8**
US Dollar bonds	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**76.5**	**82.5**
Guaranteed bonds	**9.6**	**9.6**	**9.6**	**9.6**	**9.6**	**293.0**	**341.0**
Bank loans	**24.9**	**24.9**	**24.9**	**24.7**	**87.6**	**85.6**	**272.6**
Combined cross currency interest rate swaps	**7.0**	**7.4**	**7.1**	**7.1**	**7.1**	**36.1**	**71.8**
Eurobonds issued by Kelda Eurobond Co Limited	**-**	**-**	**1,224.0**	**-**	**-**	**-**	**1,224.0**
Inflation linked swaps	**42.7**	**50.7**	**100.4**	**58.9**	**156.0**	**1,608.0**	**2,016.7**
Fair value interest rate swaps	**12.0**	**12.7**	**13.7**	**13.7**	**13.7**	**157.6**	**223.4**
Finance leases	**65.7**	**14.9**	**16.5**	**5.4**	**5.5**	**86.2**	**194.2**
	187.8	**146.1**	**1,422.1**	**145.3**	**305.4**	**4,047.3**	**6,254.0**
Non-interest bearing financial liabilities							
Trade payables	**97.4**	**-**	**-**	**-**	**-**	**-**	**97.4**
Other payables	**142.1**	**3.5**	**-**	**-**	**-**	**-**	**145.6**
	239.5	**3.5**	**-**	**-**	**-**	**-**	**243.0**

(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 to provide benefits to stakeholders, returns to shareholders and to maintain an optimal capital structure. In order to do this, the group will consider the amount of debt and assets held and their liquidity.

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

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

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

22. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Credit risk

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

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

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

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

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

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

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

		Group		Company
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Cash and short term deposits (see note 15 and 16)	**89.7**	276.1	**-**	-
Trade and other receivables (see note 14)	**227.2**	229.0	**0.3**	0.3
Financial assets (see note 16)	**15.0**	147.2	**-**	-
Investments	**1.1**	0.7	**3,053.6**	3,053.6

Liquidity risk

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

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

At 31 March 2018 the group had £755.3m of available liquidity (2017: £1,090.9m) which comprised £65.6m in available cash and short term deposits (2017: £276.1m) and £689.8m of undrawn committed borrowing facilities (2017: £814.8m).

The maturity profile on page 144 represents the forecast future contractual principal and interest cashflows in relation to the group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

22. Financial instruments *(continued)*

Market risk

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

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

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

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

	2018	2017
	£m	£m
Impact on profit before tax		
1% increase in RPI leading to a decrease in profit	**9.7**	30.6
1% decrease in RPI leading to an increase in profit	**(9.7)**	(30.6)
1% increase in LIBOR leading to an increase in profit	**14.5**	9.8
1% decrease in LIBOR leading to a decrease in profit	**(7.9)**	(5.6)

(c) Fair values of financial assets and financial liabilities

The information set out below provides information about how the group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. Financial instruments _(continued)_

(c) Fair values of financial assets and financial liabilities _(continued)_

Fair value of the group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	**Fair value as at 31 March**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value 31 March**
	2018	**2017**				
1. Interest rate swaps, combined cross-currency swaps, inflation linked swaps, fixed rate bonds and inflation linked bonds	Assets: £34.9m Liabilities: £1,272.9m	Assets: £79.8m Liabilities: £904.5m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counter-party credit risk.		
2) Interest rate swaps	Assets: £45.3m Liabilities: £916.3m	Assets: £61.5m Liabilities: £1,483.1m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	• Counter-party cost of funding assumption. • Assumptions relating to long-term credit beyond observable curves • Recovery rates	Unobservable inputs contribute on average to 21% of the fair value of level 3 instruments, equalling a total of £414.6m of the fair value included in the financial statements. A 10 basis point shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £142.8m higher or lower.

22. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

The following table provides the fair values of the group's financial assets and liabilities at 31 March 2018.

	2018 Level 1 £m	**2018 Level 2 £m**	**2018 Level 3 £m**	2017 Level 1 £m	2017 Level 2 £m	2017 Level 3 £m
Primary financial instruments financing the group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	**65.6**	**-**	**-**	276.1	-	-
Financial assets from concession arrangements	**147.2**	**-**	**-**	145.2	-	-
Loans to associates/joint ventures	**0.5**	**-**	**-**	0.5	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	**-**	**-**	**45.3**	-	-	61.5
Cross-currency interest rate swaps	**-**	**34.9**	**-**	-	79.8	-
Energy derivative		**8.0**				
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	**-**	**(21.3)**	**-**	-	(25.2)	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	**-**	**(4.2)**	**-**	-	(1.4)	-
Fixed rate US Dollar bonds	**-**	**(318.2)**	**-**	-	(365.4)	-
Fixed rate AU Dollar bonds	**-**	**(29.6)**	**-**	-	(33.1)	-
Fixed rate Sterling bonds	**(273.7)**	**(204.3)**	**-**	(288.6)	(210.7)	-
Inflation linked swaps	**-**	**(1,038.5)**	**(916.3)**	-	(673.4)	(1,483.1)
Energy derivative	**-**	**-**	**-**	-	(6.4)	-
Designated as Fair Value Through Other Comprehensive Income						
Other interest rate swaps	-	**(10.7)**	**-**	-	(29.0)	-
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	**(2,330.0)**	**(341.5)**	**-**	(2,638.1)	(268.3)	-
Inflation linked sterling bonds	**(571.6)**	**(1,324.3)**	**-**	(450.2)	(1,192.3)	-

Reconciliation of Level 3 fair value measurements of financial assets:

	Fixed to floating interest rate swaps £m	**Total £m**
Balance at 1 April 2017	**61.5**	**61.5**
Total unrealised gains or losses:		
- included within exceptional finance costs in the profit or loss	**(16.2)**	**(16.2)**
Balance at 31 March 2018	**45.3**	**45.3**

22. Financial instruments *(continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities:

	RPI swaps £m	Total £m
Balance at 1 April 2017	**1,483.1**	**1,483.1**
Total unrealised gains or losses:		
- included within exceptional finance costs in the profit or loss	**(447.3)**	**(447.3)**
Transfers from Level 3	**(119.5)**	**(119.5)**
Balance at 31 March 2018	**916.3**	**916.3**

Valuations that are classed as level 3 for the inflation linked swaps are defined by the proportion of the funding and counter-party adjustment being greater than 10% of the total mark to market valuation of the instrument.

22. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2018:

	Reflected in profit or loss	
	Favourable change £m	**Unfavourable change £m**
Level 3 financial instrument assumptions:		
10 basis point change in counter-party funding assumption	29.70	(29.70)
10 basis point change to credit curve assumption	43.40	(43.40)
10% change in the recovery rate assumption	69.70	(69.70)

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with these inflation linked swaps:

* six monthly interest receivable linked to LIBOR;

* six monthly interest payable linked to RPI; and

* an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate (see note 7 for further details).

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within long-term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short-term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £1,926.2m (2016/17: £2,156.5m liability) at the year end date. Of this amount £172.1m (2016/17: £123.5m) has been recognised within long-term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2018. The remaining £1,754.1m is recognised within other financial liabilities.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2018 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit value adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £442.6m (2017 - £541.7m), with the sensitivity analysis suggesting a range of adjustment of £585.4m to £299.8m as at 31 March 2018 (2017 - £670.0m to £413.4m).

22. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

The mark to market value of the inflation linked swaps excluding these adjustments as at 31 March 2018 is £2,398.8m (2016/17: £2,696.9m).

The RPI bullet accrued to 31 March 2018 was £268.2m (2016/17: £200.6m) which has been reduced by £96.1m (2016/17: £77.1m) when discounted to present values.

Interest rate swaps

The group entered into several multi-currency interest rate swap transactions involving fifteen Fixed US Dollar bonds and one AUS Dollar bond, referred to as Cross Currency swaps.

As detailed in note 5, the net impact of the fair value movement on the swaps resulted in a net income of £3.2m (2016/17: £4.1m income) to the profit and loss account. This impact is split out as follows.

The fair value of combined cross currency interest rate swaps resulted in an expense of £47.8m being recognised in the income statement (2017: £41.5m income). This is offset by the change in fair value of the associated bonds resulting in an income of £50.9m (2017: £37.4m charge). Of the change in fair value of the associated bonds, £47.3m income (2017: £33.8m charge) relates to Fixed US Dollar bonds and £3.6m income (2017: £3.6m charge) relates to the AUS Dollar bonds.

The group holds three fixed to floating interest rate swaps, which mature in 2029 and 2033. The movement in the fair value of the swaps resulted in a charge of £16.2m recognised in the income statement (2017: £13.0m income). This is offset by the change in fair value of the associated bonds of £21.5m income (2017: £30.0m charge). The income relating to the fair value of the individual associated bonds is as follows.

£15.0m of income (2017: £25.5m charge) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £276.3 (2017: £291.3m) at 31 March 2018. £3.1m (2017: £2.4m charge) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £104.0m (2017: £107.1m) at 31 March 2018. The remaining £3.4m change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £101.1m (2017: £104.5m) at 31 March 2018.

The group holds two floating to fixed interest rate swaps in relation to floating rate finance leases. These have a total nominal value of £45m. The movements in the fair value of floating to fixed rate swaps in respect of finance leases resulted in an income of £3.9m recognised in the income statement as an exceptional item (2017: £0.3m charge).

The movement in the fair value of the floating interest rate to fixed interest rate swap instruments was a loss of £0.4m (2017: £2.9m loss). The fair value movement in the year has been charged directly to reserves as hedging criteria were met.

(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 hedging strategy that requires that Yorkshire Water Services Limited and its subsidiaries to maintain at all times at least 85% of its total outstanding debt as index linked obligations or fixed rate obligations either directly or via hedges. At the financial year end the proportion was 101% (2017: 109%). At the Kelda finance group level the proportion was 96% (2017: 107%) at the financial year end.

22. Financial instruments *(continued)*

(d) Hedges *(continued)*

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 inflation linked swaps and also a floating interest rate to fixed interest rate swap.

The nominal value of inflation linked swaps total £1,289.0m and have an average life of 25 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 15 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.

Hedging of interest due under finance leases

The group has a number of finance leases with a number of counterparties lasting from inception to 21 February 2043.

22. Financial instruments *(continued)*

(d) Hedges *(continued)*

Fair value hedges

Combined cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The group has recognised an asset of £34.9m (2017: £79.8m) for the mark to market gain in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £44.9m (2017: £37.4m gain) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The group has a £33.8m combined cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an Australian dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. The hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The group has made a provision of £4.2m (2017: £1.4m) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £2.8m (2017: £4.1m gain) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £21.0 (2017: £30.0m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £9.0m (2017: £7.2m gain) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £14.4m (2017: £18.0m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £3.6m (2017: £3.3m gain) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements.

22. Financial instruments *(continued)*

(d) Hedges *(continued)*

The group has recognised an asset of £9.9m (2017: £13.5m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £3.6m (2017: £2.6m gain) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

Cashflow hedges

The group entered into energy price swaps, which hedge the group's exposure to energy prices. The fair value movement on the energy price swap in the financial year was an income of £14.4m (2017: £3.6m income) which was classified within operating costs.

The fair value of the floating interest rate to fixed interest rate swap instruments was recognised as a liability of £10.7m (2017: £15.7m liability). The fair value movement of £5.0m in the year has been charged directly to reserves as hedging criteria were met.

Foreign currency risk management

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

23. Post balance sheet event

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable on the receipt leg of certain swaps by £10m for two years, £5m received semi-annually from August 2018, and £21.1m for ten years, with £10.6m received semi-annually from August 2020.

Additional cash flow information

Analysis of movement in net debt

	At 31 March 2016 £m	Non cash movements £m	Cash movements £m	At 31 March 2017 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2018 £m**
Cash and cash equivalents	77.6	-	198.5	276.1	**-**	**(210.5)**	**65.6**
Debt due within one year	(132.0)	-	(28.6)	(160.6)	**-**	**(107.3)**	**(267.9)**
Finance leases due within one year	(37.2)	-	26.2	(11.0)	**-**	**(1.6)**	**(12.6)**
	(169.2)	-	(2.4)	(171.6)	**-**	**(108.9)**	**(280.5)**
Debt due after one year	(5,660.6)	(171.6)	(262.0)	(6,094.2)	**(133.8)**	**66.6**	**(6,161.4)**
Finance leases due after one year	(162.6)	-	49.8	(112.8)	**-**	**12.6**	**(100.2)**
	(5,823.2)	(171.6)	(212.2)	(6,207.0)	**(133.8)**	**79.2**	**(6,261.6)**
Net debt relating to continuing activities	(5,914.8)	(171.6)	(16.1)	(6,102.5)	**(133.8)**	**(240.2)**	**(6,476.5)**

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

24. Additional cash flow information *(continued)*

Cash used as noted in the group (including discontinued operations) cash flow statement can be derived as follows:

	2018	2017
	£m	£m
Total loss for the year	**(64.9)**	(431.0)
Tax charge/(credit) - continuing	**9.5**	(114.7)
Tax charge from discontinued operations	**0.6**	2.6
Loss before taxation	**(54.8)**	(543.1)
Share of associates' and joint ventures' loss after tax	**0.1**	-
Finance income	**(49.2)**	(22.2)
Finance costs	**459.9**	427.3
Exceptional finance (income)/costs (non-cash)	**(41.0)**	466.5
Movement of fair value of derivative financial instrument (energy contracts)	**(14.4)**	(3.6)
Depreciation	**300.7**	287.6
Amortisation of capitalised bid costs and software	**11.8**	9.8
Profit on disposal of operations	**(28.2)**	-
Profit on disposal of property, plant and equipment	**-**	(0.6)
Impairment/(reversal of) property, plant and equipment	**1.0**	(3.4)
Impairment of assets held for sale	**4.9**	-
Amortisation of capital grants	**(10.0)**	-
Decrease in inventories	**(0.6)**	(0.8)
Decrease in trade and other receivables	**(5.5)**	(22.2)
Increase in trade and other payables	**19.8**	15.7
Pension contributions in excess of operating costs	**(8.5)**	(10.7)
Movements in provisions	**(0.6)**	-
Other movements	**(0.8)**	-
Cash generated from operating activities	**584.6**	600.3

25. Commitments

	2018 **£m**	2017 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**393.2**	510.3

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014. £17.2m in 2018 (2016/17: £10.3m) of the above capital commitments relate to intangibles (software).

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

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

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

	2018 Land and buildings £m	**2018 Other £m**	2017 Land and buildings £m	2017 Other £m
No later than 1 year	**2.7**	**1.3**	1.6	1.6
Later than 1 year and no later than 5 years	**7.5**	**1.5**	8.4	2.9
Later than 5 years	**4.7**	**-**	6.4	-
	14.9	**2.8**	16.4	4.5

26. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders.

	Loans (from)/to related parties	Loans (from)/to related parties
	2018	2017
	£m	£m
Joint ventures		
Whinmoor Limited	**-**	0.6
Templegate Developments Limited	**(0.1)**	(0.5)
Tingley Limited	**0.1**	0.1
Sir Robert Ogden Evans Property Partnership Limited	**0.8**	0.6
	0.8	0.8

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £nil (2017: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2018 the group made provisions totalling £0.6m for doubtful debts relating to amounts owed by related parties (2017: £0.6m). During the year dividends received from related parties totalled £nil (2017: £0.3m).

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

Compensation of key management personnel (including directors):

	2018	2017
	£m	£m
Short term benefits	**2.7**	3.2
	2.7	3.2

27. Subsidiary companies

The company, as an individual entity, has the following investments in subsidiaries, associated and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Water services				
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Grampian) Limited[4]	Scotland	UK	Ordinary	100%
Kelda Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Projects) Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services (Old Whittington) Limited	England & Wales	UK	Ordinary	100%
The York Waterworks[2]	England & Wales	UK	Ordinary	100%
Three Sixty Water Services Limited	England & Wales	UK	Ordinary	100%
Aberdeen Environmental Services (Holdings) Limited[4]	Scotland	UK	Ordinary	100%
Aberdeen Holdco Limited	England & Wales	UK	Ordinary	100%
Aberdeen Environmental Services Limited[4]	Scotland	UK	Ordinary	100%

27. Subsidiary companies *(continued)*

	Country of incorporation	Country of tax residence	Class of share in issue	Proportion of class of share held
Other activities				
Keyland Developments Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Services (Yorkshire) Limited	England & Wales	UK	Ordinary	100%
Kelda Transport Management Limited	England & Wales	UK	Ordinary	100%
Safe-Move Limited	England & Wales	UK	Ordinary	100%
Loop Customer Management Limited	England & Wales	UK	Ordinary	100%
Southern Pennines Rural Regeneration Company Limited[3]	England & Wales	UK	Ordinary	100%
Yorkshire Water Estates Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Limited	England & Wales	UK	Ordinary	100%
Kelda Limited	England & Wales	UK	Ordinary	100%
Kelda Group Pension Trustees Limited	England & Wales	UK	Ordinary	100%
Ridings Insurance Company Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Projects Limited	England & Wales	UK	Ordinary	100%
Glandwr Cyfyngedig	England & Wales	UK	Ordinary	100%
Keyland (Midpoint) Limited	England & Wales	UK	Ordinary	100%
Keyland 2595 Limited	England & Wales	UK	Ordinary	100%
Templegate Developments Limited	England & Wales	UK	Ordinary	50%
Springswood Limited[5]	England & Wales	UK	Ordinary	50%
Tingley Limited[5]	England & Wales	UK	Ordinary	50%
The Courtyard (Midpoint) Management Company Limited	England & Wales	UK	Ordinary	33.3%
Whinmoor Limited[5]	England & Wales	UK	Ordinary	50%
White Laith Developments Limited[5]	England & Wales	UK	Ordinary	37.5%
Rampart Developments Limited[5]	England & Wales	UK	Ordinary	25%

27. Subsidiary companies *(continued)*

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Other activities *(continued)*				
The Sir Robert Ogden Partnership Limited[5]	England & Wales	UK	Ordinary	25%
The Sir Robert Ogden-Evans Property Partnership Limited[5]	England & Wales	UK	Ordinary	25%
Holding and finance companies				
Kelda Group Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Holdings Limited[1]	Cayman Islands	UK	Ordinary	100%
Kelda Non-Reg Holdco Limited	England & Wales	UK	Ordinary	100%
Saltaire Water Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Limited[1]	Cayman Islands	UK	Ordinary	100%
Yorkshire Water Services Bradford Finance Limited[1]	Cayman Islands	UK	Ordinary	100%
Kelda Finance (No.1) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) PLC	England & Wales	UK	Ordinary	100%

Registered office address:

[1] Maples & Calder Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands KY1 - 1104
[2] 8 Princes Parade, Liverpool, Merseyside L3 1QH
[3] Canal & Visitors' Centre, Butler's Wharfe, New Road, Hebden Bridge HX7 8AF
[4] Nigg Wwtp Coast Road, Nigg, Aberdeen AB12 3LT
[5] Millshaw Ring Road, Beeston, Leeds, West Yorkshire LS11 8EG

28. Ultimate controlling party

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

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

29 Contingent liabilities

On 20 July 2015 an employee of the company suffered a fatal accident while carrying out his duties. This is currently subject to a Health and Safety Executive investigation. The duration, timing and outcome of this investigation is currently unknown.
The initial court hearing for this matter was held in May 2018, where Yorkshire Water pleaded guilty to the charge. It is probable that a fine will be incurred the size and timing of which are unknown due to the early stages of the investigation.

Kelda Eurobond Co Limited
Company Balance Sheet
as at 31 March 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Investments	*2*	**3,053.6**	3,053.6
		3,053.6	3,053.6
Current assets			
Debtors (including £257.0m (2016/17: £275.0m) falling due after more than one year	*3*	**269.2**	275.3
Creditors: amounts falling due within one year	*4*	**(1,288.4)**	(1,341.1)
Net current liabilities		**(1,019.2)**	(1,065.8)
Total assets less current liabilities		**2,034.4**	1,987.8
Creditors: amounts falling due after more than one year	*5*	**(1,329.2)**	(1,235.3)
Net assets		**705.2**	752.5
Capital and reserves			
Called up share capital		**750.0**	750.0
Profit and loss account		**(44.8)**	2.5
Total shareholders' funds		**705.2**	752.5

The loss incurred by the parent company for the year ended 31 March 2018 was £50.9m (2016/2017: loss of £29.5m). Advantage has been taken of the exemption available under section 408 of the Companies Act 2006 not to present a profit and loss account for the company alone.

The financial statements on pages 164 to 169 were approved by a duly authorised committee of the board of directors on 13 July 2018 and signed on its behalf by:

Richard Flint

Chief Executive

13 July 2018
Kelda Eurobond Co Limited
Registered in England no. 06433768

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

Kelda Eurobond Co Limited
Company statement of changes in equity
for the year ended 31 March 2018

	Ordinary shares £m	Accumulated profits £m	Total equity £m
At 1 April 2016	750.0	40.2	790.2
Loss for the year	-	(29.5)	(29.5)
Dividends paid	-	(8.2)	(8.2)
At 1 April 2017	750.0	2.5	752.5
Loss for the year	-	(47.3)	(47.3)
At 31 March 2018	**750.0**	**(44.8)**	**705.2**

1. Company accounting policies

Basis of accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements of the group headed by the company have been prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from its registered address: Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ, United Kingdom.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of Key Management Personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The going concern basis has been applied in these financial statements.

The accounting policies shown below have been applied consistently throughout the current and prior year.

Taxation

Current tax

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

Deferred tax

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

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

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

1. Company accounting policies *(continued)*

Investments in subsidiaries

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

Financial instruments

Creditors

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.

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.

Interest receivable

Interest receivable is recognised as the interest accrues using the effective interest method.

Share capital

Ordinary shares are classified as equity.

2 Investments

	Shares in Group undertakings	Total investments in Group undertakings
	£m	£m
Cost		
At 1 April 2017 and 31 March 2018	**3,053.6**	**3,053.6**

A list of the subsidiaries of the company can be found on pages 160 and 162. The directors believe that the carrying value of the investments is supported by their underlying net assets.

3. Debtors

	2018	2017
	£m	£m
Amounts falling due within one year:		
Taxation receivable	**11.9**	-
Amounts owed by group undertakings	**0.3**	0.3
	12.2	**0.3**
Amounts falling due after more than one year:		
Amounts owed by parent undertaking	**129.3**	121.8
Amounts owed by group undertakings	**127.7**	153.2
	257.0	275.0

Amounts falling due within one year are unsecured, interest free, have no contractual repayment date and are repayable on demand.

Amounts due after more than one year are unsecured, bear interest at 6 month LIBOR plus margin and have no contractual repayment date. Although the loans are repayable on demand, there is no expectation that such a demand will be made in the financial year ending 31 March 2018.

4. Creditors: amounts falling due within one year

	2018	2017
	£m	£m
Amounts falling due within one year:		
Amounts owed to group undertakings	**1,277.6**	1,331.1
Other creditors	**10.8**	10.0
	1,288.4	1,341.1

Amounts owed to group undertakings are unsecured, repayable on demand, and carry interest rates of 6 month LIBOR with margins of between 0.7% and 6% being applied to different tranches of loan. Included within the balance is a loan of £768.8m (2016/7: loans of £1,009m) which bears interest at 4.25% above LIBOR.

5. Creditors: amounts falling due after more than one year

	2018	2017
	£m	£m
Amounts falling due after more than one year:		
2020 Bonds	**1,329.2**	1,235.3

The bonds are repayable in February 2020 and bear interest at 7.00% above LIBOR.

6. Other information

The company had no employees at 31 March 2018 (2017: none).

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

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

Fees of £5,000 payable to the company's auditor for the audit of the company financial statements were borne by Kelda Group Limited in the year ended 31 March 2018 (2016/7: £5,000).

7. Ultimate controlling party

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

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

8. Dividends

Dividends of £nil, nil pence per share, were paid during the year (2016/17: £8.2m, 1.09 pence per share).