Kelda Eurobond Co Limited

Annual report and financial statements

Registered number 06433768

For the year ended 31 March 2017

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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 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 six strategic objectives that shape everything the business does:

- Trusted company;
- Safe water;
- Excellent catchments, rivers and coasts;
- Water efficient regions;
- Sustainable resources; and
- Strong financial foundations.

Kelda Water Services Limited (KWS)
KWS is a major participant in the UK water and wastewater contract operations market, with its subsidiaries operating both water and wastewater and food waste anaerobic digestion (AD) contracts throughout 2016/17 across the UK.

Business strategy:

- Leveraging the value from Group assets and skills;
- Maximising value from our existing business; and
- Focussing on new opportunities arising from changes in the water market.

During the year, the Group commenced ongoing discussions with a number of interested parties regarding the possible sale of the KWS subsidiary companies. As at the date of approval of the financial statements no sale has yet been agreed. However, as we consider a sale with 12 months to be probable, KWS has been presented as a discontinued operation in the Group accounts for the year ended 31 March 2017.

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.

ThreeSixty Water Limited (TSW) and its subsidiaries (collectively TSWG)

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

Business Strategy

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

Our strategic objectives:
To ensure long-term sustainability, we manage a programme of activity that drives us towards our vision and six Strategic Business Objectives (SBOs). Our SBO framework includes a suite of annual targets on activities that drive us towards medium-term milestones and long-term deliverables. Our SBOs shape everything we do and encompass all our material issues as a business: environmental, financial and social.

Our SBOs:

Trusted company – The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future.

Safe water – We work safely and we protect public health by ensuring drinking water is always safe to drink and wastewater never harms customers or communities at any point in the process.

Excellent catchments, rivers and coasts – We maintain and improve the water environment from source to sea, and influence others to do the same.

Water efficient regions – We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.

Sustainable resources – We are efficient and effective now and in the future, with an industry-leading workforce, zero waste and a responsible supply chain.

Strong financial foundations – We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

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

Yorkshire Water Services Limited (Yorkshire Water)

Yorkshire Water Services Limited is the most significant element of the Group's operation. Over the following pages, we provide an overview of our performance by examining our progress towards each of our six SBOs which summarise our strategy to achieve our vision.

Yorkshire Water Business Strategy

We are a regulated water and waste water company that provides some of life's most essential services and we are a custodian of the natural environment and critical infrastructure. We are regulated by three main authorities to act in the best interests of the society we serve: the Office of Water Services (Ofwat), the Environment Agency (EA), and the Drinking Water Inspectorate (DWI).

We are part of the Kelda Group and our vision is 'taking responsibility for the water environment for good'. Our vision 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 sustainability of our essential water and waste water services, and of our business.

Putting our customers' priorities at the heart of our strategy
Central to our strategy is the delivery of our customers' priorities of us, defined in seven Customer Outcomes which are measured by 26 Performance Commitments summarised in the diagram on page 5. These were shaped and agreed through our engagement with over 30,000 customers and our regulators.

The Performance Commitments set the levels of service we are working to achieve across a range of activities which customers and regulators confirm are a priority for us, for example further reducing pollution incidents and leakage. We explain our latest performance against these measures throughout this Strategic Report.

The national 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 APR (Annual Performance Review) at: www.yorkshirewater.com/reports.

Our Customer Outcomes and Performance Commitments

Customer outcomes	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 provide the level of customer service you expect and value	We keep your bills as low as possible
Our performance commitments	Drinking water quality compliance Corrective actions Drinking water quality contacts Stability and reliability factor - water quality	Leakage Water use Water supply interruptions Stability and reliability factor - water networks	Internal flooding External flooding Pollution incidents Stability and reliability factor - waste water networks	Length of river improved Visitor satisfaction Working with others Bathing water quality Land conserved and enhanced Stability and reliability factor - waste water quality	Energy generation Waste diverted from landfill	Quality of customer service (SIM) Service commitment failures Overall customer satisfaction	Number of people who we help to pay their bill Value for money Bad debt

Sustainability is an imperative within our strategy

Through our 25-year planning process we monitor a range of external influences that are shaping our business and services. We use this insight to shape our strategy and plans to ensure we are effectively preparing for the long-term to strengthen our resilience and ensure our ongoing ability to deliver the Customer Outcomes and SBOs. The latest and best evidence repeatedly shows increasing pressure from a range of factors including, for example, climate change, population growth and resource constraints. We observe an imperative for change as a company whose core business fundamentally relies on financial, natural and social resources.

We are embedding the concept of the Capitals, shown below, into our longer-term business planning, to help us ensure the affordability and resilience of our essential public services for current and future generations. The Capitals are the valuable assets which are critical to the success of any organisation. Considering positive and negative impacts, and dependencies, across the Capitals helps an organisation improve understanding of inherent risk, value and trade-offs so that more sustainable approaches can be targeted. Effective management of the Capitals helps ensure the resilience of our business.

Financial Capital	Manufactured Capital	Natural Capital	Human Capital	Social Capital
				
e.g. Cash, shares, debt	e.g. Buildings, infrastructure, treatment works	e.g. Water, minerals, air	e.g. Our people's health, knowledge and skills	e.g. Relationships, partnerships, trust

We are working to apply the Capitals in practice to enhance our resilience by further improving our risk management, decision making and investment choices. 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.

Continually developing our strategy

As with any meaningful strategy, ours continues to evolve in response to internal and external developments. Over the last year we have been developing our corporate strategy beyond 2020. Before the end of 2017 we will publish a report to share the findings from our analysis of the strategic influences shaping our business and services over the long-term, and to outline our strategy to ensure we can maintain affordable and resilient services that achieve our Customer Outcomes and SBOs long into the future.

This strategy will set the context for our Water Resources Management Plan (WRMP) and Price Review business plan. In turn, this will help us ensure the action we take in the next five-year investment cycle from 2020 to 2025, known as Asset Management Period 7 (AMP7), will deliver the necessary progress towards long-term needs and goals. Our customers and stakeholders help shape our plans through a range of ongoing participation activities, with more information on this provided in the Trusted Company SBO chapter in this report.

Communicating progress and plans towards our strategy through this report

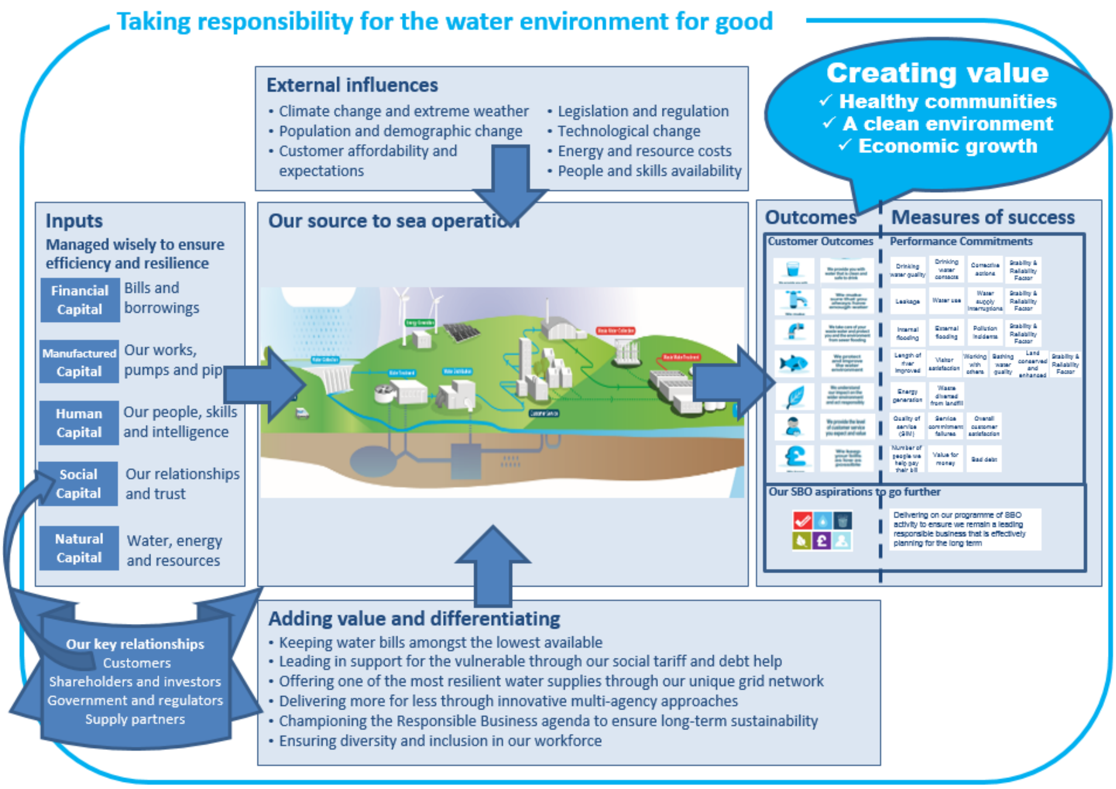
This Strategic Report summarises our progress in working towards our Performance Commitments and Customer Outcomes, and our broader SBO activity. We focus on the achievements made in 2016/17, the future challenges we face, and the plans we are putting in place to mitigate strategic risks. Over the following pages you will find an explanation of our Business Model and a Business Performance summary, then a section on each of our six SBOs where we share headline performance on everything material to our business and services. Each SBO section starts with a table summarising the Performance Commitments and headlines from activity driven by our SBO Framework. After the SBO sections we conclude this Strategic Report with an explanation of our approach to risk and how we have assured this report. You can find 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're 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.

Yorkshire Water Business Model

Yorkshire Water is a regulated water and waste water company that serves five million customers. Our core operation is the collection, treatment and delivery of high quality drinking water, and the collection, treatment and recycling of waste water. To deliver affordable, quality and resilient water and waste water services, we operate, maintain and enhance a vast network of pipes, treatment works and other infrastructure. We also provide high quality customer service and undertake a wide range of associated activities such as land management and renewable energy generation. We create value by helping society benefit from the full value of water, delivering a range of economic, environmental and social benefits for both the short and long-term.



Yorkshire Water Business Performance

The table below provides a summary of our progress and plans against each of our SBOs. More detail is provided over the following pages.

Our SBO	Our performance in 2016/17
The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future. **_Find more on pages 11-15_**	• Our highest ever score in the water industry's measure of service, the Service Incentive Mechanism (SIM). • Ranked highest water company in the UK Customer Service Index (UKCSI). • Confirmed as a leading responsible business with five stars, top marks, in Business in The Community's (BITC) Corporate Responsibility Index. • More to do to reduce numbers of complaints and improve from Prescribed status in Ofwat's Company Monitoring Framework (CMF).
We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process. **_Find more on pages 16-20_**	• Continued implementation of our health and safety improvement plan with further investment to mitigate hazards. Reinforced safety at the heart of our culture through a colleague and partner engagement programme, supported by the introduction of our new 'Life Saving Rules'. These rules have been developed to protect colleagues and reinforce our health and safety values. • Effective health protection and emergency procedures in July 2016 when a third party contaminated water supplies to Thorne, near Doncaster. • Ongoing investment in assets and services ensured customers received high standards of safety and reliability, with many of our measures showing improved levels of service.
We maintain and improve the water environment from source to sea, and influence others to do the same. **_Find more on pages 21-24_**	• A further decrease in the number of serious pollution incidents. • Deterioration to our waste water discharge permit compliance, partly caused by the floods of late 2015. We have ensured compliance recovered in the latter half of 2016. • Continued investment to protect and enhance the environment, with a range of examples provided in the Excellent Catchments, Rivers and Coasts chapter of this report.
We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same. **_Find more on pages 25-27_**	• Leakage, water consumption and supply interruptions Performance Commitments all achieved. • Work underway to update our Drought Plan and WRMP ready for consultation later in 2017. • Continued activity to raise consumer awareness of the value of water and the need to use water wisely, with a range of examples provided in the Water Efficient Regions chapter of this report.
We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain. **_Find more on pages 28-33_**	• Approach to diversity recognised by securing the NES and being included in The Times Top 50 Employers for Women. • Secured the Asset Management Standard ISO 55001 as part of our ongoing drive to ensure the effectiveness of our infrastructure investment. • Renewable energy generation Performance Commitment missed after one of our largest energy units was damaged during the floods of late 2015. Now performing well and energy generation is back on target. On track to open our new energy plant at Knostrop works in Leeds in 2019. • Innovation project to demonstrate the 'circular economy' in practice at Esholt treatment works in Bradford has progressed to detailed feasibility studies.
We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment. **_Find more on pages 34-38_**	• Customer bills were the second lowest in the water industry, and on average were increased by less than the rate of inflation. • Continued increase in the number of people we're helping when they struggle to pay their water bill. • Close management of expenditure and gearing to ensure financial prudence and to enable a fair return for investors and shareholders. • Ongoing programme to restructure index-linked swaps.

Yorkshire Water Business Performance (continued)

Headline indicators (previous year in brackets)	**Our priorities in 2017/18**	**Challenges and uncertainties**
83.4 points out of 100 in SIM (82.6)* **80** points out of 100 in UKCSI (77)# **5** out of 5 stars in the BITC Corporate Responsibility Index (4.5)#	Drive continual improvement in customer service, especially on the waste water side of the business. Engage customers so they can inform our approach and participate in the development of our plans. Continue to demonstrate we are a responsible business, for example by improving in Ofwat's CMF.	• Enhancing service faster than others in the sector • Mitigating impact of extreme weather on customer experience • Balancing a wide range of stakeholder's expectations of us
24 colleague injuries resulting in lost time (30)# + **99.962%** compliance with drinking water quality standards (99.954)* **4** serious pollution incidents (5)* **1,769** internal flooding incidents (1,842)*	Continue to deliver our safety improvement plan and embed health, safety and wellbeing as the priority in our culture. Maintain our high water and waste water service standards, and enhance service to meet increasingly stretching Performance Commitments. Collaborate to maintain and enhance the region's flood resilience.	• Managing extensive infrastructure to maintain service and ensure safety • Achieving increasingly stretching Performance Commitments • Delivering multi-agency approaches in practice to protect and enhance flood resilience
7 waste water treatment works did not meet their discharge permits (2)~ **17** out of 19 Yorkshire bathing waters achieving Good or Excellent standard (18)* **11,492Ha** of land conserved and enhanced (11,466)*	Conserve and enhance the environment by delivering our current investment programme, working in partnership to maximise the benefits. Co-develop our future programme. Increase the societal value taken from our land by introducing more recreational and environmental benefits.	• Delivering our large investment programme on time, to budget, and applying innovative approaches • Delivering multi-agency approaches in practice to protect and enhance the environment
295.2Ml/d water lost through leakage (285)* **9:47** (mins:secs) average water supply interruption per property (12:53)* **137.4/hd/d** average water use by customers (141.7)*	Ensure water is used wisely, by managing our leakage and operational use of water, and by supporting consumers to be water efficient. Update our plans for long-term resilient water services by publishing our latest Drought Plan and WRMP.	• Supporting and encouraging others to value water • Monitoring and informing nationally developing approaches to abstraction licencing and water trading • Ensuring resilient services during extreme weather and the changing climate
9 hired onto our apprentice and graduate schemes (23)# **10.4%** electricity needs met through renewable self-generation (11.3%)* **307 KT CO_2e** operational carbon emissions (353)#	Further develop and support our people to meet business and personal needs, including a focus on diversity and inclusion. Utilise the new Apprentice Levy to best effect. Continue to enhance our efficient procurement and use of resources to support financial affordability and high standards for workers and environmental protection.	• Ensuring resilience, value and high standards in our global supply chains, mitigating volatile and rising resource costs • Optimising our processes to remain fit for the future, for example delivering our commitments to the Infrastructure Carbon Review
26,902 people received financial support to help pay their bill (22,735)* **£285.8m** Yorkshire Water operating profit, excluding exceptional items (£275.2m)# **75.4%** Yorkshire Water gearing (76.7%^)#	Continued support for those that cannot pay their bill, and leading debt management for those that will not pay. Ongoing focus on financial efficiency and effective risk management to ensure stable finances, affordable bills and a fair return for shareholders.	• Managing our portfolio of financial derivatives • Uncertainties in global markets • Managing income and expenditure • Cost impacts of extreme weather events

*One of our 26 Performance Commitments to our customers and regulators, with performance on all 26 reported in the SBO chapters of this report, with a summary table at the start of each chapter.

#An internally driven SBO commitment which measures our aspiration to go beyond the Performance Commitments. These figures are from the Yorkshire Water Services Limited annual report and financial statements, published at www.yorkshirewater.com/reports.

+30 is the Yorkshire Water figure, last year we reported the Kelda Group total number of Lost Time Injuries (34).

~Discharge permit compliance is monitored by, and reported to, the EA as part of the Environmental Performance Assessment (EPA). Last year we reported our waste water treatment works discharge permit compliance, and this year we report both water and waste water treatment works compliance. This approach aligns with the EA's new reporting approach in their EPA.

^This gearing figure is different to that stated here in 2015/16, this is explained in the Strong Financial Foundations SBO section.

A Trusted Company SBO

The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future.

	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	82.6	Year-on-year improvement	83.4	Year-on-year improvement
Overall customer satisfaction According to an independent survey	95% water 92% waste water	Average 2015-20 performance to be better than average in 2010-15	93% water 91% 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	10,567	Average 2015-20 performance to be less than average last 3 years of 2010-15	10,356	Average 2015-20 performance to be less than average last 3 years of 2010-15
Working with others Number of solutions delivered in partnership with others	4	≥ 3	5	≥ 3
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments^				
BiTC Corporate Responsibility Index - Score out of five stars	4.5 stars	5 stars	5 stars	5 stars
Colleague engagement Results from an independent survey of colleague perception	7.0 out of 10	Define future targets after trialling our new survey	78% average score 67% response rate	Achieve a response rate of 70% and improve average score by at least 1%

* More information on our Performance Commitments is provided in our Annual Performance Report, available at www.yorkshirewater.com/reports.
^ A table showing latest performance against all our SBO commitments can be found on our website at this link.

Delivering leading customer service

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 82.6 points last year to 83.4 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. From a maximum score of five points we scored 4.42 points in 2016/17, improved from 4.39 in 2015/16.
- 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 19.24 out of a maximum 25 points, improved from 19.08 in 2015/16.

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 the water industry SIM by 2020. As such, SIM performance forms part of our remuneration incentive plan, described in the Directors' Remuneration Report.

We strive to be a leader in service across all sectors, as measured by the comparison by the UK Customer Services Institute. In January 2017, our service was ranked the best in the UK water sector with 80 out of 100 points, second in the whole utilities sector. This was an increase from 77 points the previous year.

We have also further reduced the number of Service Commitment failures in 2016/17, down to 10,356 (2015/16: 10,567), remaining 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. Developing processes and behaviours against these promises has helped us deliver a 16% reduction in written complaints and a 39% reduction in those complaints needing to be escalated. In contrast, the number of repeat telephone calls has risen this year and our focus for 2017/18 is to reduce the need for customers to contact us unnecessarily about the same issue. More about our Customer Promise can be found online at:
www.yorkshirewater.com/codeofpractice

The Consumer Council for Water (CCW) completes an independent survey of customer satisfaction each year. The latest results again show high levels of overall customer satisfaction: 93% for water services and 91% for waste water services. This is a slight reduction on the previous year when we saw 95% satisfaction with our water services and 92% with our waste water services. While we strive for continual improvement in this measure, 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.

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 could choose their water and waste water services retailer. This national change was enabled by the Water Act 2014. We have 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 with a potential buyer of our non-household retail 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 Water Efficient Regions SBO section.

Ensuring reliable services today and for the future
We invest to maintain and enhance our infrastructure to ensure stable and reliable services. We monitor and report our effectiveness in this area through four Stability and Reliability Performance Commitments. Our trend for achieving ‘stable’ performance in all four categories has continued into 2016/17. We report more information on each of these four Performance Commitments in the relevant SBO sections of this report.

Our services are highly reliable, for example we have one of the most resilient water supply services in the UK. However, there is a limit to the level of resilience designed into any system because of engineering capability and affordability. Extreme weather, terrorism, cyber-attack, and other significant events could damage our assets, interrupt services, threaten human safety and pollute the environment, thereby impacting our reputation and costs. We manage risks to all hazards through our management processes which have worked well through numerous emergency events in recent years.

Our cyclical approach to long-term planning ensures the action we take in the short-term is effectively contributing towards the region’s long-term needs, including preparations for strategic influences such as climate change and population growth. By the end of 2017 we will publish a report on our strategy to ensure the affordability and resilience of our essential services over the next 25 years. In parallel, we are developing our latest 25 year Drought Plan and WRMP, which will also be published by the end of 2017. All this work is informing our next Price Review business plan which, when finished in 2018, will set out our detailed five year plan to 2025, in the context of a high level 25 year plan.

Engaging with customers and stakeholders
We use a range of ongoing activities to engage with customers and stakeholders to raise awareness of our work, hear from others, and to enable participation in shaping our plans. We continue to evolve our approach to expand the quality and quantity of engagement and participation, for example we have:

- Introduced our new approach to enable customers to participate in shaping our future services.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Launched our Course It’s Better campaign, with our video achieving over 1.6m views on social media.
- Developed our stakeholder contact programme to allow them greater input to our plans.

Working in partnership
We are building on years of partnership working to deliver greater benefits to society at lower overall cost. Examples of our latest partnership projects include:

- Co-creation of a long-term vision for integrated water management in Hull and the surrounding area, working with Hull City Council, East Riding of Yorkshire Council, the EA and others.
- Committing our land to a long-term natural flood management initiative in the Calder Valley with the White Rose Forest Partnership, and others, that will start with 200,000 trees being planted along with other measures to 'slow the flow'.
- As part of the river Don Partnership we have provided financial support to a programme to install five more fish passes, adding to our recent programme of fish pass installations at other locations.
- Introducing an innovative management approach at our tenanted Humberstone Bank Farm. Bringing a range of stakeholders together to implement a vision for managing the site 'Beyond Nature', whereby the needs of a range of stakeholders are considered in balance to maximise societal value.
- Teaming up with Experience Community to improve paths around our reservoirs to better meet the needs of wheelchair users.

These and other examples have ensured we continue to achieve our Performance Commitment to deliver initiatives by 'working with others'. Collaboration is critical to achieving our Customer Outcomes and SBOs.

Supporting our community
We support a variety of organisations and help our colleagues with a range of community activities through our community programmes:

- **Education -** raising awareness of the value of water. In 2016 we celebrated our 100,000th visitor to our water education centres. In Spring 2017 we re-opened our water education centre at Ewden water works in Sheffield, offering free visits for primary school children.
- **Environment -** playing a key role as one of Yorkshire's largest landowners. For example, in 2016/17 we built a new visitor centre at our Tophill Low nature reserve in North Yorkshire, including a new water environment education programme.
- **Empowerment -** providing opportunities for colleagues to share skills through employee-supported volunteering. For example, we support Science, Technology, Engineering and Mathematics (STEM) development with primary and secondary school children, raising awareness of future career options through events during Women in Engineering Week.

In addition to our ongoing community programmes, we are supporting the City of Hull in its role as UK City of Culture in 2017. This is helping us to reinforce our role providing social, economic and environmental benefits in Hull. Looking ahead, we have recently joined Yorkshire Bank and Yorkshire Building Society to give our combined backing to the City of Leeds' bid to become European Capital of Culture in 2023.

Securing stakeholder trust
We work to build stakeholder trust through everything we do, including all the activity we describe throughout this Trusted Company SBO section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach.

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 2016/17 target for at least 65% of coverage to be positive in nature.

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, we achieved top marks of five stars in 2016/17, achieving our SBO commitment. We will strive to maintain this performance, and further improve, to remain a leader in responsible business.

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. Ofwat assessed us to be in the Prescribed category of their Company Monitoring Framework, highlighting concerns about our ability to provide sufficient confidence and assurance about our delivery, monitoring and performance reporting. In response, we completed a thorough review of our approach, including external consultation. 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

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 2016/17 we introduced a more extensive colleague engagement survey, with the latest survey securing a 67% response rate and concluding an average overall engagement score of 78%. This engagement score is calculated from all colleagues responses to a range of engagement and perception questions. We will be monitoring performance over time and are using the new approach 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.

We discuss the diversity and development of our people in the Sustainable Resources SBO section of this report. Further information on colleague engagement and inclusion is provided in the section 'Employees and employment policies' in the Directors' Report.

Working ethically and respecting human rights
Our Human Rights Policy is managed at our parent company level, Kelda Group, and 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 have published a statement on our position, this can be found at:
www.keldagroup.com/corporate-responsibility/modern-slavery-act-transparency-statement.aspx

Safe Water SBO

We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance[#] Percentage compliance with legal standards	99.954%	≥ 99.960%	99.962%	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	10,007	≤ 8,120	9,093	≤ 6,108
Corrective actions[#] Number of interventions to protect customers	5	≤ 6	3	≤ 6
Stability and reliability – waste water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Internal flooding Number of incidents	1,842	≤ 1,898	1,769	≤ 1,919
External flooding Number of incidents	9,032	≤ 10,363	9,145	≤ 10,487
Pollution incidents[#] Number of incidents	Category 1 and 2: 5 Category 3: 180	Category 1 and 2: ≤ 6 Category 3: ≤ 224	Category 1 and 2: 4 Category 3: 207	Category 1 and 2: ≤ 4 Category 3: ≤ 211
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments[^]				
Lost Time Injuries (LTIs) The number of injuries resulting in time-off to recover	30	≤ 23	24	≤ 20 LTIs (Moving primary measure to Lost Time Injury Rate, targeting ≤ 0.42)
Fundraising to support WaterAid's Everyone Everywhere 2030 campaign	£433,000	£1m by 31/03/19	£732,000	£1m by 31/03/19

* More information on our Performance Commitments is provided in our Annual Performance Report, available at www.yorkshirewater.com/reports.
[^] A table showing latest performance against all our SBO commitments can be found on our website at this link.
[#] Calendar year measure.

Putting people's health, safety and wellbeing first

As part of our overall Occupational Health and Safety (OH&S) strategy we continued to develop our OH&S management system in line with our long-term aim to secure external certification to external standards.

During 2016/17, we made significant progress in our OH&S performance as we continued to develop and deliver our OH&S improvement plan. A new Director of Health and Safety, and additional OH&S professionals, were recruited. A detailed review of high hazard site risks was completed across the Company, and significant investment was made in process safety management to understand the risks of major accident hazards and implement control measures. Underlying performance has improved, with a 20% decrease in the number of LTIs and further reduction in sickness absence rates.

Looking ahead we will be focusing on the incident rate of LTIs per 100,000 hours worked. This is in keeping with the water industry approach and will enable us to compare our performance. We are targeting a rate of no more than 0.42 LTIs per 100,000 hours in 2016/17. LTI Rates (or LTIR) forms part of our remuneration incentive plan, described in the Directors' Remuneration Report.

We developed and started to roll-out a series of ten new Life Saving Rules in 2016. These rules have been developed to protect colleagues and reinforce our health and safety values. Our Life Saving Rules set health and safety standards and expectations for the most critical activities undertaken by colleagues, and are fundamental in reducing our operational risk.

Maintaining excellent drinking water quality

Protecting public health is our primary concern. Drinking water quality within Yorkshire remains excellent with 99.962% of hundreds of thousands of samples meeting stringent regulatory standards. This shows improvement from last year and achieves our drinking water quality Performance Commitment. We have also maintained 'stable' status in the Performance Commitment for the Stability and Reliability of water quality. The status of this Commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We further reduced the number of times customers needed to contact us regarding drinking water quality, down to 9,093 in 2016/17, from 10,007 in 2015/16. However, this was not sufficient improvement to achieve the Performance Commitment for drinking water quality contacts. We recognise the need to improve faster to achieve this stretching Performance Commitment in the future.

The number of customer contacts was higher than normal last year because of an incident caused by a third party in July 2016. E.coli and related bacteria were found in water supplies to around 3,600 consumers in Thorne and Moorends villages near Doncaster. We immediately investigated to identify the cause and we took action to protect and communicate with consumers. The source was identified as a chicken processing plant that had modified its pipework without notifying Yorkshire Water to inspect it: something that it is legally obliged to do. Several physical barriers have since been put in place to prevent future contamination of the water network from this processing plant. The company operating the factory has been charged with offences under the Water Supply (Water Fittings) Regulations 1999, pleading not guilty at a hearing in March 2017. A trial is scheduled in September 2017.

The DWI praised the ‘swift’ and ‘appropriate’ actions we took to minimise the risk to public health, and the rapid steps we took to share our learning from the incident with other water companies. We provided a £30 goodwill payment to affected customers to help compensate for the disruption.

Despite the above incident we have again delivered good performance on the number of corrective actions relating to drinking water quality events, for example where we might need to inform customers to boil their water before drinking it. We had three events with corrective actions in 2016/17, achieving our Performance Commitment for no more than six incidents.

The Performance Commitments mentioned above demonstrate our ongoing effective approach to delivering the Customer Outcome ‘We provide you with water that is clean and safe to drink’. We are continually striving to maintain and improve drinking water quality by improving our assets and processes, and by engaging with others who have a key role, including customers and the agricultural sector.

In response to deteriorating raw water quality in many of our catchments we have increased our work in those catchments, we discuss this in the section on the Excellent Catchments, Rivers and Coasts SBO.

Managing 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 demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

In 2016/17, 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. While we strive for continual reduction, the Performance Commitments we agreed with customers and Ofwat allows for an annual increase in the number of sewer flooding incidents because of growing pressure from factors including climate change and new development.

We have continued to respond to the widespread flooding experienced across the UK in late 2015. These floods impacted over 10,000 homes and businesses across Yorkshire and damaged many of our assets. The Government has since committed £200m to improve flood defences in Yorkshire. We have undertaken substantial operational and investment activities to respond to the initial emergency and the resultant damage to our assets. £56m of costs have been covered by an insurance claim.

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. We are leading the natural flood management element of the plan to enhance mitigation in the upstream catchments.

We have also committed £36.3m relating to our assets, and a further £50m has been committed by the EA and others.
- In and around Hull, we have reduced flood risk to 15,000 homes with the completion of a new £16m storm water pump station in Bransholme. The new station provides around four times the pumping capacity of its predecessor. We also continue to work with relevant agencies in the area to develop the long-term approach.
- In Goole, we have continued to invest at Carr Lane pumping station, adding a further £3.6m investment to our recent £3.8m. This latest investment has enhanced reliability of the pumps and reduced odour and noise for neighbours of the pumping station. There are also continuing investigations into other flood management measures for the Goole area.

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 2016/17 for both serious pollution incidents classed as Category 1 or 2 by the EA, and other pollution incidents which are classed as Category 3. We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents by 2020. However, we also recognise that consistently achieving this Commitment will be challenging.

During 2016/17 we were prosecuted for the following pollution incidents that took place in 2013. Fines for these offences are higher than historically typical following a 2014 revision to the guidelines for sentencing environmental offences.
- In April 2016, we were fined a total of £1.1m for three offences at Naburn waste water treatment works.
- In August 2016, we were fined £350,000 for a pollution incident from a combined sewer overflow in Harrogate caused by a plank of wood being put into the sewer and a delay in our response.

One of our Customer Outcomes is ‘We take care of your waste water and protect you and the environment from sewer flooding’. We show satisfactory performance on this Outcome, and the need for continued improvement, when examining latest progress towards the Performance Commitments and related activities which we have discussed here and in the above Managing flood risk section.

We explain more about our work to protect the water environment in the Excellent Catchments, Rivers and Coasts SBO section of this report.

Adopting private pumping stations

Ownership and maintenance responsibility for private pumping stations transferred to the regulated water companies on 30 September 2016 following a national change. We took ownership of around 371 private sewage pumping stations located across our region, all of varying age, condition and size. We inherited a low level of understanding about these pumping stations and there may be further stations we take ownership of as more sites are identified. We have been preparing for this transfer over recent years, making plans to assess each station and ensure the necessary investment and maintenance arrangements.

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. Our SBO commitment is to raise £1m for WaterAid to support projects that will transform lives in Ethiopia. Three years into our five year campaign, we are well ahead of plan having already raised over £730,000 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.

Excellent Catchments, Rivers and Coasts SBO

We maintain and improve the water environment from source to sea, and influence others to do the same.

	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 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	18	≥ 15	17	≥ 15
Land conserved and enhanced Total cumulative area in hectares, Ha	11,466	≥ 11,736Ha by 2020	11,492	≥ 11,736Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	98%	Survey and publish figures annually	97%	Survey and publish figures annually
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments[^]				
Delivering our part of the National Environment Programme in partnership	Agreed final detail of the new five-year environmental programme with the EA. First schemes moving into delivery phase. Partnership opportunities identified, e.g. working with Don Rivers Trust on fish pass schemes.	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 Trusts and the Yorkshire Invasive Species Forum. Monitored by 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.
Proactive estate management to maximise value	Developing an approach that assesses Financial, Natural and Social Capital to determine the best option to create long-term value for customers and the Company. Testing our process at one site, Humberstone Bank Farm, showed a new approach of 'Beyond Nature' would enhance value.	Continue to deliver our plan to develop and embed, by 31 March 2020, a cross business process to optimise for the long-term how we mitigate the risk and maximise the value of our land.	A systematic, repeatable process is being developed to help us assess all our land against the five Capitals on a rolling programme. The process has been applied to six pilot sites identifying future options. 'Beyond Nature' approach implemented at Humberstone Bank Farm and two further sites identified.	Continue to deliver our plan to develop and embed, by 31 March 2020, a cross business process to optimise for the long-term how we mitigate the risk and maximise the value of our land.

* More information on our Performance Commitments is provided in our Annual Performance Report, available at www.yorkshirewater.com/reports.
^ A table showing latest performance against all our SBO commitments can be found on our website at this link.
# Calendar year measure.

Reducing pollution and enhancing river water quality
We collect, treat and return 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 demonstrate 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.

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 notified us that our latest performance is provisionally classified as a 'Good Company', with three out of a maximum four stars in their new rating system. This overall EPA classification is not comparable to previous years because the EA have changed how they report performance in this assessment. The EA have confirmed they will publish the official 2016 assessment on the same day as we publish this ARFS.

In their new approach to the EPA, the EA have expanded the metric previously examining waste water treatment works discharge permit compliance to also capture water treatment works permit compliance. The EA report our overall treatment works compliance in the 2016 calendar year was 97.2%. While this was not reported last year in the EA's previous approach to the EPA, we can report that this compares to a 2015 performance of 99.0%.

Seven of our more than 600 waste water treatment works did not meet their discharge permit conditions in 2016. This was a reduced performance compared to 2015 when we had only two failing works. Five of the seven failures occurred in the first half of 2016 while we diverted resources to respond to the impacts of the severe floods of late 2015. This, and other factors, contributed to this lower than normal performance which recovered in the latter half of 2016. While it is our aim to achieve high levels of performance and drive towards 100% compliance, our Price Review business plan and funding agreement with Ofwat was based on continuing to achieve the stable reference level of five failing works.

Two of our 20 permitted water treatment works did not meet their discharge permit conditions in 2016. This compared to one failing water works in 2015. We have put action plans in place at both sites to improve performance and we have no failing water treatments works in 2017 at the time of this publication. Please note that we 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 discuss our progress against these commitments in the Sustainable Resources SBO section.

We also invest to protect the water environment from pollution caused by escapes from our sewer network; we discuss this in the Safe Water SBO section of this report.

Investing in the region's bathing waters
Our recent £110m investment to enhance Yorkshire's coastal water quality ensured our assets were ready to comply with the tighter requirements of the revised Bathing Water Directive which came into effect in 2015. The table below shows the number of Yorkshire's formally designated bathing waters which meet each of the water quality categories of the revised Bathing Water Directive.

Bathing water quality classification	2016	2015
Excellent	11	10
Good	6	8
Sufficient	1	1
Poor	1	1

The total number of designated bathing beaches in Yorkshire reduced by one in 2016 when Staithes beach was removed from the formal list by the Government, taking the total from 20 to 19.

We achieved our Performance Commitment to maintain at least 15 beaches at the Excellent or Good legislative standard, which goes beyond the minimum Sufficient standard. Scarborough South beach has reduced in water quality over the past few years and is currently classified as 'Poor'. There are many factors and organisations which contribute to bathing water quality and the cause of the deterioration at Scarborough South beach is currently unknown. The EA are investigating to inform future action.

Of the eight resort beaches in Yorkshire, four will be able to apply for the coveted Blue Flag in 2017. A Blue Flag demonstrates that a beach complies with a range of standards including water quality, provision of information and other requirements. We have a role in ensuring some of these standards but a range of other organisations and factors also have critical influence on Blue Flag status. While we delivered the waste water treatment standards required to achieve Blue Flags at all eight resort beaches in Yorkshire, third parties have more to do to meet the required standards. We continue to work closely with the EA, local councils and other key stakeholders through the Yorkshire Bathing Water Partnership to help in achieving eight Blue Flags in Yorkshire.

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 (discussed in the Safe Water SBO section), and addressing problems at source through our catchment management programme (discussed here).

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. 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. Through our collaborative working we are increasingly active and effective in peatland management and are growing the 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 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 water pollution between 2015 and 2020. This includes working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldyhyde slug control pellets. We are also investigating nitrate and other pollutants that present risks to several of our groundwater sources.

Managing our land to maximise value
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. To help us further enhance the business and societal value generated from our land, we are using Financial, Natural and Social Capital to shape our decision making.

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,736Ha 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. An example of our developing Capitals thinking is our implementation of an innovative, partnership approach to managing our farm tenancies 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. 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 to add to this new management regime and we have held positive early discussions with the current farm tenants.

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 97% visitor satisfaction. Following consultation in 2015 we have been enhancing the number and diversity of those able to take recreational value from our land. For example, during 2016/17 we worked in partnership with Experience Community to improve paths for wheelchair using visitors to our reservoir recreation sites. Find out more about our recreational offering on our website at:
www.yorkshirewater.com/run

All the activity we discuss above in this SBO Chapter on Excellent Catchments, Rivers and Coasts 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.

Water Efficient Regions SBO

We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.

	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 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	12:53	≤ 12:49	9:47	≤ 12:00
Leakage Total leakage in million litres per day, Ml/d	285.1Ml/d	≤ 297.1Ml/d	295.2Ml/d	≤ 297.1Ml/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	141.7l/h/d	≤ 141.5l/h/d	137.4l/h/d	≤ 141.5l/h/d
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments^				
Water efficiency - domestic customers Total water saved in million litres per day, Ml/d	1.77Ml/d	≥ 7.5Ml/d by 2020	2.01Ml/d (3.78Ml/d cumulative total)	≥ 7.5Ml/d by 2020
Water efficiency - non-household customers Total water saved in million litres per day, Ml/d	4Ml/d	≥ 4Ml/d	5.76Ml/d	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.

* More information on our Performance Commitments is provided in our Annual Performance Report, available at www.yorkshirewater.com/reports.
^ A table showing latest performance against all our SBO commitments can be found on our website at this link.

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 the drought in 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 demonstrate 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 enhance our visibility of the network. Water efficiency is also central to our plans and we describe this below.

We have further reduced the average time we interrupt our customers water service. Interruptions are sometimes needed to undertake emergency and planned maintenance. At under ten minutes in 2016/17 we have performed well ahead of the Performance Commitment of nearly 13 minutes. We continue to optimise existing approaches and innovate further to help us bring this figure even lower.

Our Drought Plan contains a framework of 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 WRMP describes how we will maintain the balance between water supply and demand over the next 25 years. Our assessments for our current WRMP show that climate change presents a growing threat to our ability to maintain the balance between supply and demand. We are well placed to manage this threat because water resource management is our most mature area of resilience and planning. We have enhanced the resilience of our water service by developing a grid to connect the mix of water supply options in Yorkshire so that we can move water to where it is needed.

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

We are currently updating our Drought Plan and WRMP, which we do every five years. We will publish our latest plans for consultation before the end of 2017.

Reducing the Company's own water use

We seek to demonstrate our leadership in the efficiency of our operational use of water, especially potable water. Over recent years we have undertaken a range of activity to better understand our operational water consumption and to identify opportunities to save more water in our operational activities. We aspire to achieve the Carbon Trust Standard for Water to externally verify our leadership in this area. To deliver this ambition we have identified the need to enhance the level at which we monitor our operational water consumption. We are developing a programme of water efficiency opportunities that we will consider for prioritisation alongside all our investment needs as we optimise our Price Review business plan for AMP7.

Sustainably minimising leakage
We measure, report and reduce leakage as the dominant source of water waste. Approximately two thirds of total leakage is from our distribution network and one third is from customers' supply pipes. We have almost halved leakage since 1995 and this year we have again achieved our Performance Commitment to ensure leakage is no higher than 297.1Ml/d. This target figure is the Sustainable Economic Level of Leakage (SELL), an industry methodology that defines the optimum level of leakage based on a suite of economic, environmental and social considerations. We typically work to keep leakage levels slightly below the SELL to provide extra security in our ability to meet the supply demand balance.

In 2016/17, we lost 295.2Ml/d through leakage, this is an increase on the previous year, which is in keeping with our aim to return leakage to a level just below the SELL. By 2020 we will further reduce our leakage target in line with the SELL, to no more than 287.1Ml/d.

Working with customers to save water
We support and encourage our domestic and business customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2016/17, we helped our customers save over 7Ml/d by providing free water saving devices and a range of advice and support services. This has helped us achieve our Performance Commitment for Water Use, with Per Capita Consumption reduced from 141.7l/h/d in 2015/16 to 137/4l/h/d in 2016/17.

More information can be found on the water efficiency section of our website at: www.yorkshirewater.com/save

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 and we are considering the costs and benefits of a broad range of options as part of our WRMP to determine the optimal approach to meet the supply demand balance in our region. 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.

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.

One of our Customer Outcomes is 'We make sure that you always have enough water'. The latest report on Performance Commitments and our other activities in the Water Efficient Regions SBO show effective performance towards this Outcome. We remain focused on this area to ensure resilience and efficiency in the face of the changing climate and growing population.

Sustainable Resources SBO

We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Our Performance Commitments to customers and regulators*				
Renewable energy generation Percentage of our energy needs generated by renewable technology	11.3%	≥ 12%	10.4%	≥ 12%
Waste diverted from landfill Percentage of our waste diverted from landfill disposal	98.9%	≥ 94%	99.3%	≥ 95%
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments^				
Skills and human resource planning	We hired 17 apprentices and six graduates in 2015. One of only three UK water companies to be ranked in the Top 100 Apprenticeship Employer list.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.	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.
Diversity and Inclusion (D&I) Our ambition to be as diverse as the society we serve, inclusive of all	We rolled out unconscious bias training to all colleagues and worked with an assurance provider to assess our readiness and necessary improvements to obtain the National Equality Standard (NES), the UK's first business standard for D&I.	Implement our D&I programme of activity to help us be more reflective of the society we serve, achieving the NES by 31 March 2020.	We became the first UK water company to achieve the 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.
Operational carbon emissions Thousand tonnes of carbon dioxide equivalent (KT CO_2e)	353 KT CO_2e and Carbon Trust Standard (CTS) maintained.	≤ 342 KT CO_2e, and maintain CTS	307 KT CO_2e and CTS maintained.	≤ 306 KT CO_2e, and maintain CTS

* More information on our Performance Commitments is provided in our Annual Performance Report, available at www.yorkshirewater.com/reports.
^ A table showing latest performance against all our SBO commitments can be found on our website at this link.

Attracting great people and maintaining the skills we need

Our people are critical to the success of our business and services. We recognise the need to ensure 'sustainable human resources', for example by managing our ageing workforce and developing our people with the skills needed in our increasingly technical operations. We have continued to develop and train our people, and ensure a fair reward package, through a wide range of activities, for example in 2016/17 we:

- Joined others to form the Energy and Utilities Skills Partnership, launching the Workforce Renewal and Skills Strategy for the utilities sector to help address the skills gap.
- Continued to develop and extend our apprentice programme, hiring nine more apprentices and launching our first apprenticeship involving a degree course. We will use the Government's new incentive, the Apprentice Levy, to further increase our numbers of apprentice recruits over the coming years.
- Maintained our certification as a Living Wage employer.

Championing diversity

We strive to be as diverse as the society we serve, inclusive of all. D&I provides business benefit and supports social cohesion. While we recognise we have much more to do, we have a growing portfolio of activity and we see increasing evidence that our activity is delivering results. For example, in 2016/17 we have:

- Become the first water company to achieve the National Equality Standard (NES) following an independent assessment. We have also been placed amongst The Times Top 50 Employers for Women.
- Improved the diversity of our Board and Management Team following the appointment of two female independent non-executive directors and an ethnic minority director (not statutory) - find out more about our Board members in the Governance Report.
- Further developed our partnership with the Lighthouse Futures Trust, who support children on the autistic spectrum, by developing an internship programme to give students work experience. We're now working with the Trust to develop this model to roll out across the region.
- Hosted approximately 250 young female students during Women in Engineering Week to raise awareness of Science, Technology, English and Mathematics (STEM) subjects and career opportunities. We are working to host around 300 students this year, inviting some of last year's students back for more advanced sessions.
- Developed, and shared with colleagues, a diversity calendar to recognise and support a range of events important to different religions and cultures.

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March of each year shown. The total number of Yorkshire Water employees shows an increase from approximately 2,400 to 2,700, this is primarily a result of inter-company transfers within the Kelda Group.

Gender	Male			Female		
	2017	2016	2015	2017	2016	2015
Statutory directors	6 (60.0%)	7 (77.8%)	7 (77.8%)	4 (40.0%)	2 (22.2%)	2 (22.2%)
Senior managers	16 (69.6%)	16 (72.7%)	16 (69.6%)	7 (30.4%)	6 (27.3%)	7 (30.4%)
Total employees	2,021 (75.3%)	1,862 (76.0%)	1,792 (77.7%)*	662 (24.7%)	589 (24.0%)	515 (22.3%)*

*These figures have been corrected from previously published.

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Statutory directors	10 (100%)	9 (100%)	9 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	20 (87.0%)	20 (90.9%)	22 (95.7%)	2 (8.7%)	1 (4.5%)	1 (4.3%)	1 (4.3%)	1 (4.5%)	0 (0.0%)
Total employees	2,153 (80.2%)	1,951 (79.6%)	1,907 (82.7%)	113 (4.2%)	97 (4.0%)	86 (3.7%)	417 (15.5%)	403 (16.4%)	314 (13.6%)

Age	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory directors	**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%)
	2015	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (33.3%)	5 (55.6%)	1 (11.1%)
Senior managers	**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%)
	2015	0 (0.0%)	2 (8.7%)	11 (47.8%)	10 (43.5%)	0 (0.0%)	0 (0.0%)
Total employees	**2017**	174 (6.5%)	667 (24.9%)	670 (25.0%)	740 (27.6%)	414 (15.4%)	18 (0.7%)
	2016	153 (6.2%)	595 (24.3%)	594 (24.2%)	736 (30.0%)	363 (14.8%)	10 (0.4%)
	2015	127 (5.5%)	518 (22.5%)	575 (24.9%)	720 (31.2%)	359 (15.6%)	8 (0.3%)

We have reported information annually on the 'gender pay gap' since 2014. The average difference between all male and female Kelda Group employees was 13.5% when we last assessed our position on 31 August 2016. This gap is less than the national average and has reduced on the previous year. There are a number of reasons for this difference between male and female average pay, and we will continue to focus on this matter. Further information can be found on our website:
www.keldagroup.com/corporate-responsibility/our-people/equality,-diversity-and-inclusion.aspx

We discuss how we manage relations with colleagues in the Trusted Company SBO section of this report. We also provide further detail in the section 'Employees and Employment Policies' in the Directors' Report later in this document.

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 Stanadard (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. This accounts for nearly two thirds of our emissions reduction compared to the previous year.
- Our cessation in the use of fuel oil as we closed our incinerators.
- A reduction in our consumption of natural gas used in our waste water treatment processes.

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.

	2016/17	**2015/16**	**2014/15**
Operational emissions – kilo tonnes of carbon dioxide equivalent (KT CO_2e)			
Scope 1 emissions KT CO_2e	65	84	86
Scope 2 emissions KT CO_2e	211	241	252
Scope 3 emissions KT CO_2e	31	29	32
Total gross emissions KT CO_2e	**307**	**354**	**370**
Total net emissions KT CO_2e	**307**	**353**	**369**
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO_2e)			
Emissions per million litres of water served	263	282	301
Emissions per million litres of waste water treated	218	265	326

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.
Total net emissions deduct 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 will save costs. In 2016/17 we continued to develop our approach, for example further improving our carbon models by capturing as-built carbon data from our capital investment schemes. We have also been working to incorporate carbon emissions in our new asset management optimisation system.

During 2016/17 we became certified to the ISO 55001 Asset Management Standard. Ensuring we follow leading best practice approaches will support us in delivering further innovation and working towards our ambitious carbon commitments.

Managing electricity consumption and costs

Electricity accounts for about 75% of our operational emissions and is one of our largest and most volatile operating costs. To keep costs low, reduce emissions, and minimise demand from the national grid, we work to minimise our electricity consumption and maximise our generation of renewable energy.

We were more energy efficient in 2016/17, reducing the amount of electricity we consumed from 578GWh in 2015/16 to 569GWh. We supplied 10.4% (59GWh) of our electricity needs from our own renewable generation in 2016/17. This is down from 11.3% (65GWh) in

2015/16 and does not achieve our Performance Commitment to generate 12% of our energy needs from renewables. The main reason for this performance was that our thermal hydrolysis generation plant at Esholt works in Bradford was damaged in the floods of late 2015. As one of our largest generation assets this impacted our overall performance.

Despite this temporary dip in performance, we continued to grow our total generation capacity with a new wind turbine at Old Whittington treatment works in Chesterfield. We are investing to go beyond our Performance Commitment by generating approximately 18% of our own needs by 2020. This will be achieved by delivering our £71.9m investment in a sludge treatment and anaerobic digestion facility at our Knostrop works in Leeds. This is on track to complete in 2019. Our Board have also recently approved further substantial investment in a new anaerobic digestion facility at our Huddersfield treatment works, enabling the permanent closure of our remaining sludge incinerators.

Turning waste into resource

We recognise the need to reduce waste in all its forms: monetary, physical and time. Minimising waste is essential to help us reduce our environmental impact while remaining efficient to keep bills low for customers and provide a return to shareholders.

Sewage sludge is a large and renewable resource from which we generate renewable energy and create products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts. We have also increased the rates of recycling from our offices, construction projects and operational sites. In 2016/17 we have continued to enhance our waste data and increase recycling rates to 99.3%, exceeding our Performance Commitment to divert at least 94% of our waste from landfill.

We continue to develop our approach because we want to maximise resource efficiency, going further than simply diverting waste from landfill. We are working on a range of projects with resource efficiency principles at their core. We have continued to develop our ambition to make Esholt waste water treatment works in Bradford a leading demonstration of the ‘circular economy’ in practice. The circular economy is a concept where society no longer defaults to the linear ‘take-make-waste’ cycle of modern society, but instead works collaboratively and innovatively towards the aspiration for the endless reuse of resources. Having invested to make the Esholt site almost entirely self-sufficient for its energy needs, we are now recovering a large volume of redundant waste water filter media as a commercial aggregate. Our fellow group company, Keyland Developments, is leading this latest phase of work. Once the filter material has been recovered, the large footprint of redundant filter beds will be redeveloped for sustainable economic growth which takes value from currently under-utilised energy, land and water resources on the site.

Achieving our SBO ambitions 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 expect 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.

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

The activity and plans we describe throughout this Sustainable Resources SBO show that we are progressing well towards our Customer Outcome 'We understand our impact on the wider environment and act responsibly'. We have ambitions to go much further in this area because we recognise the importance of these activities for long-term sustainability.

Strong Financial Foundations SBO

We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	22,735	Publish figures annually	26,902	Publish figures annually
Value for money Percentage of customers in an independent survey	82% water 83% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15	79% water 82% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15
Cost of bad debt to customers Percentage of the average customer's bill	3.05%	≤ 3.16%	2.94%	≤ 3.16%

	2015/16 actual	2016/17 plan	2016/17 actual	2017/18 plan
Measures of our financial health, many of which are SBO commitments which measure our ambition to go beyond the Performance Commitments†				
Operating profit (Yorkshire Water) Gross profit less operating expenses, before deduction of interest, taxes and exceptional items.	£275.2m^	Not published	£285.8m^	Not published
Revenue (Yorkshire Water) Income received for services provided	£975.8m^	£1,000.3m	£1,003.1m^	£1,021.8m
Capital expenditure (Yorkshire Water) The amount spent to acquire, maintain and enhance assets and infrastructure	£252.9m^	£388.5m	£378.6m^ (Excluding exceptional costs of the 2015 floods)	£439.3m (Excluding exceptional costs of the 2015 floods)
Net debt[#1] (Yorkshire Water) The value of loans owed, offset by available cash	£3,551.7m^	Not published	£3,773.6m^	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	76.7%[#1]	Not targeted at Yorkshire Water level	75.4%	Not targeted at Yorkshire Water level
Regulatory Capital Value (RCV) The regulated valuation of Yorkshire Water	£5,833m^	Not published	£6,144m^	Not published

*. More information on our Performance Commitments is provided in our Annual Performance Report, available at www.yorkshirewater.com/reports.

^ The figures shown above are from the Yorkshire Water annual report and financial statements which are available at www.yorkshirewater.com/reports.

† A table showing latest performance against all our SBO commitments can also be found on our website at this link.

[#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. Last year's gearing and net debt figures were reported for the Yorkshire Water Financing Group (i.e. the companies within the Yorkshire Water Whole Business Securitisation), this year we have updated our approach to report Yorkshire Water Service Limited, i.e. the regulated water and waste water service company to align with Ofwat requirements.

[#2] Ofwat reporting requirements on credit ratings are that water companies should report a corporate family rating where available. Only Moody's produce 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.

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 2016/17 was £366, the second lowest. We increased average bills by less than the rate of inflation in 2016/17 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.

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 and advanced our leading approach to debt management, reducing this cost to 2.94% of the average bill in 2016/17.

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 (2016/17: £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 nearly 27,000 in 2016/17.

Each year, CCW survey water customers about perceived value for money. Latest results show that 79% of customers agreed our water service was ‘value for money’, and 82% for our waste water service. This is a slight reduction compared to last year when CCW found 82% and 83% on the water and waste water services, respectively. While we strive for continual improvement in this measure, 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.

Managing and governing our borrowing requirements

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

We use a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities to finance our operations. Any funding required is raised by the Group treasury department in the name of the appropriate group company, operating within the relevant debt covenants. Subject to the restrictions required by the Whole Business Securitisation (WBS, explained below), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm’s length basis. 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 issued £250m of debt via the US Private Placement (USPP) market. The amounts raised will be used to help fund our capital expenditure programme. Also during the year, we raised £200m of bank and institutional loans as part of our plan to part-refinance a £260m 6% 2025 bond that was repaid shortly after the balance sheet date in April 2017.

Managing financial risk

The operation of the Kelda Group, and therefore Yorkshire Water treasury function, is governed by policies and procedures, which set 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, and 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 Yorkshire Water's financing is of primary importance. We frequently monitor levels of indebtedness and associated measures, such as gearing. These are forecast not just against covenanted levels within our financing documents, but also against levels necessary 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 beyond into future Price Review periods. More information in relation to our credit ratings is provided 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 market prices, price risk, liquidity risk, interest rate risk and exchange rate risk. 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 primary financial instruments used to finance our activities.

Our revenue is linked to the underlying rate of inflation, measured by RPI, and therefore fluctuates in line with changes in the rate of inflation. Negative inflation, without appropriate management, could potentially breach gearing limits despite the Company being profitable. To mitigate this risk, we maintain levels of index-linked debt and index-linked swaps. The index-linked swaps are an arrangement such that interest is both payable and receivable on a notional amount of £1,289.0m, with six month LIBOR (London Interbank Offered Rate) receivable and interest payable at fixed amounts plus RPI. Movements in RPI are also applied to the debt. Therefore, as RPI reduces and income reduces, the interest charge will also reduce, or in the case of gearing, as RCV reduces, the value of debt also reduces. The maturity of the swaps ranges from 2026 to 2063. With long-term expectations of LIBOR at historically low levels, the swaps held by the Company gave rise to a negative fair value on 31 March 2017 of £2,033.0m (2015/16: £1,579.5m).

See note 22 of the Statutory Financial Statements for more details on the financial derivatives held by the Group.

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. During

2015/16 we took the opportunity in this period of low energy prices to fix our energy costs to 2020.

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, Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P"). The latest published ratings are as follows:

Rating Agency	Class A rating	Class B rating	Corporate Family Rating	Date of publication
Fitch	A (stable)	BBB+ (stable)	N/A	July 2017
Moody's	Baa1 (stable)	Ba1 (stable)	Baa2 (stable)	July 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 Moody's affirmed the Corporate Family Rating of YW at 'Baa2' and affirmed the Yorkshire Water Financing Group's Class A and Class B rating at Baa1 and Ba1 respectively, whilst 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 Yorkshire Water's shareholders have been taking and will to continue to work on through the current regulatory period.

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.

The credit ratings 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.

Kelda Water Services Limited (KWS)

KWS is a leading UK water and waste water contract operations company, providing mainly water and waste water operations and maintenance under long term contracts.

KWS has operated across the UK through its five projects:

- KWS Defence in England and Wales (KWS Defence Limited and KWS Estates Limited);
- KWS Alpha in Northern Ireland (KWS Alpha Limited and Dalriada Water Limited);
- KWS Grampian in Scotland (KWS Grampian Limited and Aberdeen Environmental Services Limited);
- KOE Edinburgh in Scotland (Alauna Renewable Energy Limited and Kelda Organic Energy (Edinburgh) Limited); and
- KOE Cardiff in Wales (Kelda Organic Energy (Cardiff) Limited and Kelda Organic Energy Limited)

KWS Defence had another excellent year. The relationship with the client remains strong, which is attributable to our partnering approach and good contract performance.

KWS Alpha also delivered a good performance in the year with volumes dispatched being better than plan contributing to results marginally ahead of plan. The company also delivered its best ever contractual compliance performance and an outstanding health and safety record.

KWS Grampian continued its recovery with improved operational and compliance performance in the year. The focus remained on asset maintenance and performance.

Two food waste anaerobic digestion (AD) projects reached service commencement in the year, having completed construction and started operations during the year. The Edinburgh project is a food AD project with electricity supplied through a long term power purchase agreement to Scottish Water. The contract provides services to Edinburgh and Midlothian Councils until 2036. The Cardiff project is a contract with Cardiff and Vale of Glamorgan Councils with both a food AD facility and a green waste composting facility.

KWS has financial liabilities relating to interest rate swaps taken out to manage the volatility of interest rates on the Groups future commitments. The fair value of these swaps are held on the Group balance sheet and amounted to a £29.0 million liability (2016: £31.5 million liability) at 31 March 2017.

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 contribute 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 2016/17 the billing quality of service, as measured by SIM qualitative survey was 4.52 out of 5.

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 26,902 customers to the value of over £7 million.

The Performance Commitment on bad debts as a ratio of average bill was also exceeded at 2.96% compared to a target of 3.16%. This means Loop is effectively keeping the cost of collection as low as possible.

Significant changes were required during 2016/17 to separate the commercial and domestic operations to ensure Loop was compliant with the new Competition regulations, including the implementation of a new billing system. Loop provide customer service support to Non Household customers in the new market.

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.

The development framework for all employees was implemented, giving structure to the reward and the development of our colleagues. Loop are proud to have regained 1 star accreditation from Best Companies, which was based on colleague feedback. This has been supported by strong employee engagement scores during the year (based on a survey sent to all employees).

Keyland Developments Limited (Keyland)

The property market remained bouyant during 2016/17, 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.

ThreeSixty 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 of three elements:

- TSW, which has a Water and Sewerage Services License (WSSL) obtained under the UKWA, has a small number of customers previously 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 post year end, 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.

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 2017	Year ended 31 March 2016
	£m	£m
Operating profit/(loss) from continuing operations	311.2	(156.8)
Operating profit from continuing operations before exceptional items and share of associates and joint ventures profit after tax	279.7	269.8
EBITDA from continuing operations before exceptional items (see note 4)	574.6	557.8

Operating results for the year

The results for the year show an operating profit from continuing activities before exceptional items and share of associates and joint ventures profit after tax of £279.7m (2016: £269.7m), largely generated by Yorkshire Water's regulated water business. Note 3 to the financial statements shows the profit split by segment.

Exceptional items relating to continuing operations for the year

Exceptional items from continuing operations comprise:

	2017	2016
	£m	£m
Included in operating costs:		
Release of KGI Bridgeport company provision	**-**	0.2
Insurance receipt	**46.0**	10.0
Operating costs	**(17.9)**	(1.5)
Reversal of / (impairment) of assets due to flooding	**3.4**	(35.0)
Impairment of goodwill	**-**	(400.0)
	31.5	(426.3)
Included in finance income		
Movement of fair value of index linked swaps	**-**	129.0
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**41.5**	-
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**13.0**	8.1
	54.5	137.1
Included in finance costs		
Movement of fair value of index linked swaps	**(453.4)**	-
Movement of fair value of finance lease interest rate swaps	**(0.3)**	(0.7)
Movement of fair value of cross currency debt	**(37.4)**	(3.7)
Movement in fair value of debt associated with fixed to floating interest rate swaps	**(30.0)**	-
	(521.1)	(4.4)

The directors have assessed goodwill for impairment and ascertained that there was no impairment of goodwill for the year ended 31 March 2017 (2016: £400m).

Exceptional income of £46.0m has been received in 2016/17 following the insurance settlement for the December 2015 flood. This follows the £10.0m received in 2015/16, making a total insurance payment received of £56.0m. This has been offset by costs associated with the ongoing operational mitigation for damaged assets of £17.9m. After a small write back of the provision against damaged assets, the net credit of £31.5m is included in exceptional items (2016: £26.5m charge).

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in the retail price index ("RPI") by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2017 resulted in a £2,156.5m liability (2016: £1,734.3m liability).

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2017 resulted in a £25.2m liability (2016: £24.9m liability). The year on year increase of the liability of £0.3m (2016: £0.7m increase in liability) has been recognised as an exceptional finance cost. This has been included in the profit and loss account as the accounting rules which would allow it to be held in reserves were no longer met. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance income include the fair value movement of various combined cross currency interest rate swaps which were designated in fair value hedge relationships. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IFRS, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2017. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £4.1m income (2016: £3.7m charge) to the income statement.

Exceptional finance income includes the fair value movement of various fixed to floating interest rate swaps which were designated as in fair value hedge relationships. These fair value interest rate swaps have been valued at the reporting date at fair value. In line with IFRS, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2017. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £16.9m charge (2016: £8.1m income) to the income statement.

Exceptional items relating to discontinued operations for the year

Exceptional items comprise:

	2017	2016
	£m	£m
Included in operating costs:		
Contract compliance costs	**11.7**	5.5

Exceptional costs relating to discontinued operations relate to the cost of meeting contractual obligations at the Aberdeen site.

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 2017 and concluded that a revaluation uplift of £280m, before deferred tax and adjustment for historical depreciation, was required. This has been recognised in other comprehensive income in the year ended 31 March 2017.

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 credit on continuing activities of £114.7m (2015/16: credit of £50.3m) is mainly due to the non-cash movement in the deferred tax provision.

The deferred tax provision represents the temporary differences between 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 2016/17 movement is largely due to the effects of the increase 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 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.

Our Approach to risk management

Effective risk management is central to the achievement of our objectives. It is managed at Group level, embedded in our normal business process and culture, and overseen by an executive-led Risk Committee. The Risk Committee consists of senior executives from across the business and is chaired by the Director of Finance, Regulation and Markets. This improves our ability to predict and prepare for challenges to the achievement of our priorities and supports the creation and protection of value in the Group.

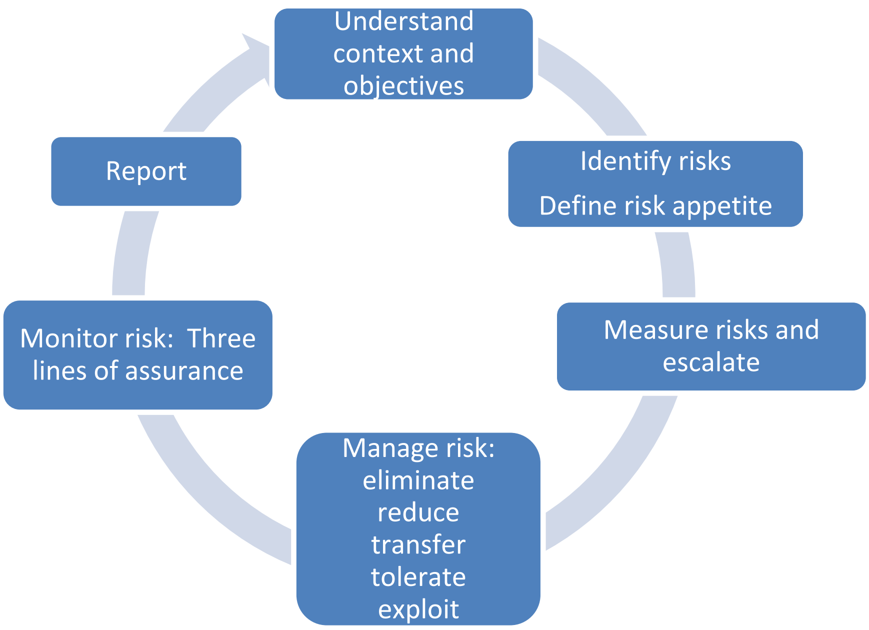
We manage risk in line with the following key principles:

- ***Transparent risk culture***: all risks are measured, managed, monitored and reported.
- ***Proactive approach***: risk management is dynamic with risks and opportunities identified and escalated to be managed at the appropriate level in the business.
- ***Risk governance***: all risks are subject to appropriate controls and governance.
- ***Risk appetite***: a clearly defined risk appetite framework is aligned to the business strategy and reflects the Board's approach to risk taking.

Our risk management approach is summarised below and applies to all activities, decisions and processes.

Our approach to risk management

The diagram below summarises our approach to risk and we follow this structure in describing our approach over the following pages.



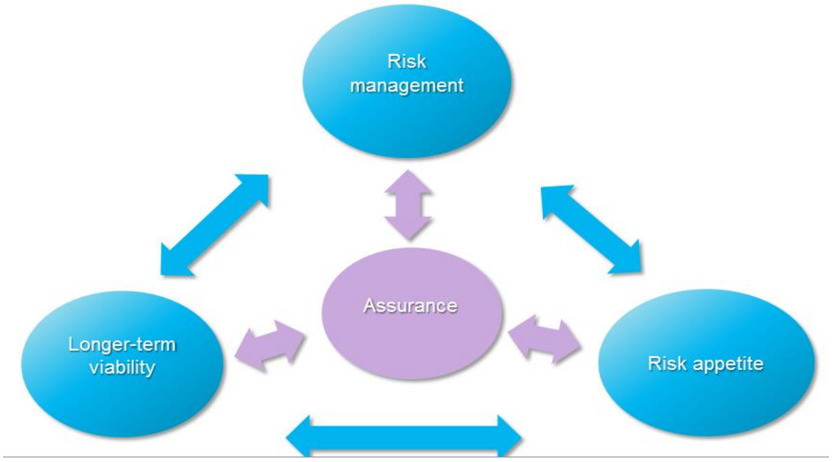
Understand context and objectives

We describe our corporate strategy in the Business Strategy section at the start of this Strategic Report. Our strategy sets the context in which we define and manage our approach to risk.

Identify risks

Risk identification is embedded in our operational management systems across the business. A network of Risk Champions works with leadership teams to prompt risk identification, consistent measurement and review. Risks are logged in a range of risk management databases. We run risk identification workshops with the Board twice a year, as well as with key programmes, new teams or processes and leadership teams as required. Each risk is allocated to a Risk Owner who is responsible for the monitoring, management and reporting of that risk through the risk management process for the life of the risk.

Define risk appetite
The Board sets the corporate risk appetite, defining the tolerable level of risk for each of the risk measures (see table below). We adopt a cautious approach to the management of risk. This means we expect a low residual risk with a strong control environment. Deviations from defined process are accepted if formally agreed at the approporiate level and the risk captured. We balance the cost of control with the risk appetite and the long-term viability of the business.



Risk Owners determine the tolerable level for each risk within the corporate risk appetite framework. We act where net risk exceeds appetite. When we are at appetite we monitor and audit our controls to gain assurance that we will continue to meet our objectives.

Corporate risk appetite framework
The Board sets the overarching corporate risk appetite.

Impact	Appetite
Health and safety	The Group recognises 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	The Group has no tolerance of any risk that may result in a breach of covenanted ratios. We will maintain headroom agreed by the Board.
Service	The Group will achieve performance that results in no net financial loss over the AMP and maintains our 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	The Group wants to be best in class, respected across the industry and region. We will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives.
Compliance	The Group will be compliant, but will tolerate risks that have been reduced to levels as low as reasonably practicable. It will only tolerate one-off, planned breaches of regulation in the pursuit of guaranteed improvement in compliance.
People	The Group works hard to create the right environment, while maintaining good relations through robust consultation and engagement with all its colleagues.

Measure risks and escalate
To ensure that risks are managed at the right level, they are escalated according to their potential impact through a hierarchy of aligned registers at strategic, functional and operational levels, as depicted in the diagram below.

Risk hierarchy of aligned risk registers

The Risk Committee reviews the corporate risks, controls and risk appetite each month, and assesses the tolerability of the overall risk profile. All material movements in business unit or corporate risks are reported monthly to the Risk Committee and senior leaders.

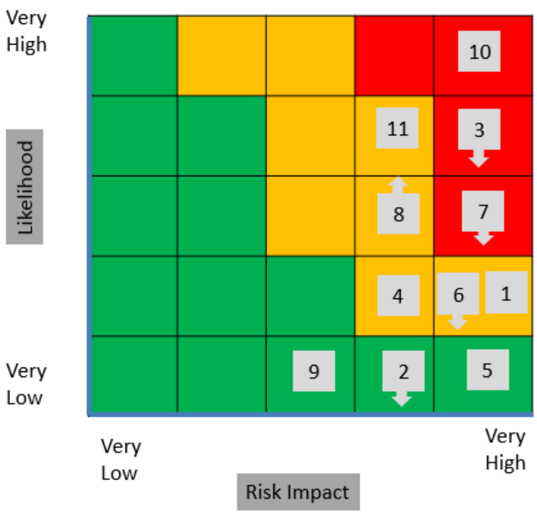
The Board monitors the tolerability of the overall level of risk, assessing the impact on our customers, financial health, colleagues and reputation, based on monthly risk reports. Principal risks are those which are deemed to have the potential to threaten viability or take the business significantly beyond risk appetite. This may be individual risks from the corporate register or an aggregation of related risks. The directors and executive management have performed a robust assessment of the principal risks which have been reviewed by the Audit Committee.

The diagram below maps the principal risks facing the Group at the year-end according to the likelihood that the risk will realise and the potential impact if it does. It also indicates whether we perceive the risk to the Group is increasing or reducing. The table shows that:

- Protecting our data is currently our highest risk.
- Improved controls during the year have reduced the likelihood that risks to our protection of the environment and security will realise, although the impact will be very high if they do.
- The opening of the non-household retail market has introduced the risk of non-compliance with the Competition Act.
- The likelihood that the risk to our talent, culture and succession will realise has increased during the year, due to the extent of the change programmes currently being managed in the business.

Principal risks at 31 March 2017
The principal risks are summarised in the diagrams below.

#	Principal Risk Summary	Risk Position 16/17	Risk Forecast at end AMP6
1	Public and colleague safety		
2	Enough clean, safe drinking water		
3	Protect the environment		
4	Climate change resilience		
5	Customer trust		
6	Financial Sustainability		
7	Security		
8	Talent, culture & succession		
9	Water sector reform		
10	Data Protection		
11	Competition Act		

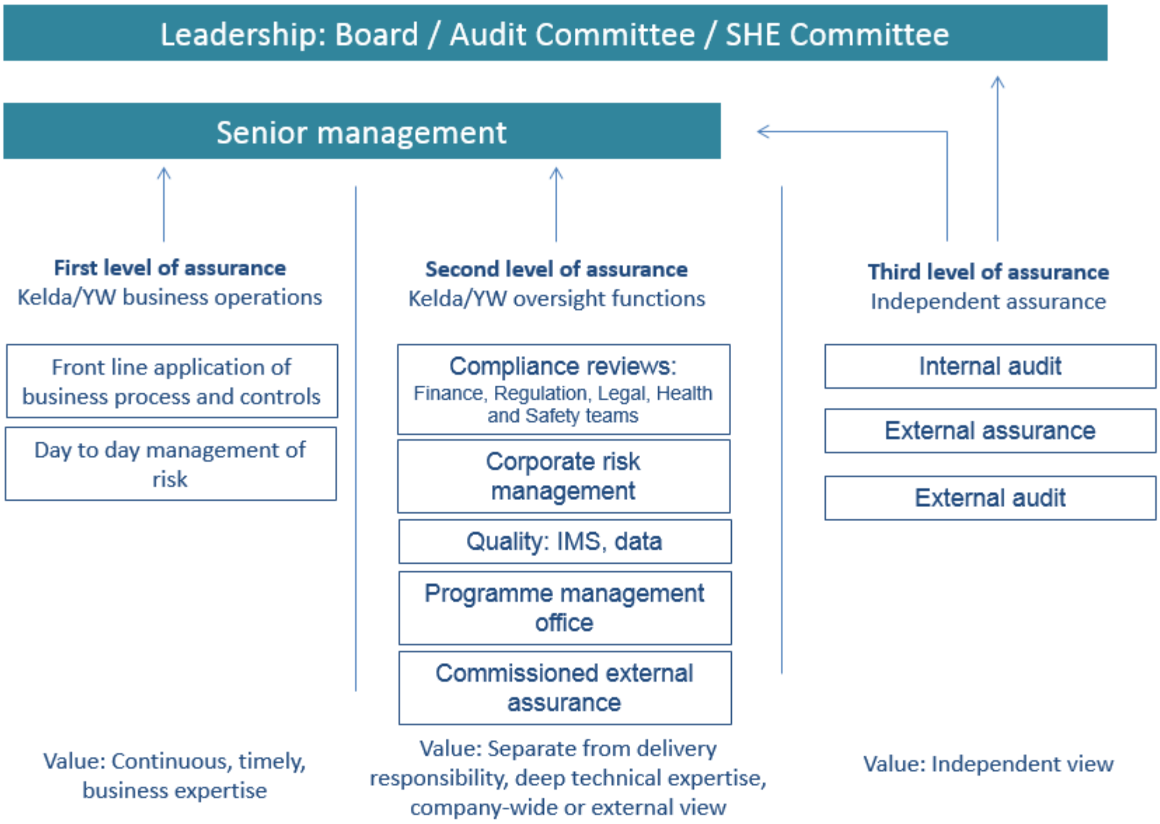


Manage risk
Our integrated, proactive approach to risk management ensures that risks are escalated in a timely way, to be visible and managed at the right level of the business. More detail on our treatment plans is noted in the table on pages 53 to 55. This also maps our principal risks against our SBOs, comments on the reasons for any change in the net risk and summarises the approach to risk assurance.

Monitor and report risk
We adopt a best practice 'three levels of assurance' approach. To support dynamic risk management we have a monthly risk reporting cycle of joint risk and audit reporting. This

ensures that risks are escalated, understood and managed at the right level in the business, and appropriate assurance is provided.

Our 'three levels of assurance' approach:



The table on pages 53 to 55 details the specific assurance available to the risk owners, management and directors for each principal risk. In addition, we have established assurance arrangements which are common across all our principal risks.

First line assurance is typically provided by operational managers ensuring compliance with established controls, policies and procedures. Line managers ensure that we have appropriate skills to deliver the expected level of service in the right way. Each department has a dedicated Risk Champion to identify, escalate and oversee the management of risk.

We operate an integrated management system (IMS) which provides second line confidence that policies and procedures achieve our regulatory and legal requirements. This is externally accredited to international quality standards (ISO) for health and safety (ISO 18001), asset management (ISO 55001), environment (ISO 14001), information security (ISO 27001) and quality process management (ISO 9001). In addition a range of second line monitoring and checks is undertaken by subject matter experts in Finance and Regulation and our Business Support Group. Our programme management office provides assurance over the progress of our capital programme as well as our suite of change programmes. All senior managers provide assurance that company policies and procedures are in place and operating to achieve compliance with our regulatory and legal requirements through our annual control risk self-assessment (CRSA) process. The Risk Committee, comprising all our executive directors, meets monthly to oversee the management and tolerability of risk across the business.

Our internal audit function provides independent assurance on the adequacy and effectiveness of our risk management system including our systems of internal control. Our audit programme is agreed and monitored by the Audit Committee. Our external financial and technical auditors provide further independent assurance over the accuracy and completeness of our financial and operational performance reporting.

We are working to improve the integration of these assurance arrangements into a single, principle based Board Assurance Framework during 2017/18.

Risk management achievements during 2016/17
We have a continuous improvement plan for risk management, which is monitored by the Board Audit Committee. In 2016/17 we have:

- Updated our corporate risk probability methodology in line with industry best practice, to ensure a consistent, evidence based approach to assessing the likelihood of risk materialising.
- Developed a suite of key risk indicators for all corporate risks to promote proactive risk management.
- Developed our corporate approach to risk scenario planning.
- Improved and cascaded our risk management policy to include our commitment to the ‘three levels of assurance’ model.
- Updated and integrated our risk and audit reporting.

A summary of our principal risks

Principal risk	Change	SBO	Treatment plans	Assurance
Public and colleague safety We play a critical role in protecting the safety, health and wellbeing of our customers, colleagues and contract partners.	The risk has reduced through the delivery of the first year of the occupational health and safety improvement programme and on-going development and embedding of policy and procedures.		• OH&S Management System is supported by a suite of policies. • OH&S improvement programme: 8 work streams driving a stepped change in our assets and practices. • 10 Life Saving Rules have been agreed and will be rolled out by September 2017. • Board Safety, Health and Environment Committee (SHE) monitors performance to target. • New Director of Health and Safety has refreshed our strategy and supporting structure to support the embedding of best practice health, safety and well-being policies and procedures.	Certified ISO 18001 compliance. Operational and line management review. OH&S specialist team; good practice policies and procedures, compliance is checked through inspection and audit programme. H&S improvement programme assurance. Asset integrity: policies and inspection programme. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audits. External technical auditor. SHE committee.
Enough clean, safe drinking water We supply an average of 1.3 billion litres of water to Yorkshire consumers each day. It is imperative that this remains a safe, high quality and reliable service.	We have delivered sustainable improvements to headroom through capital schemes. We continue to monitor the impact of the weather on water supply.		• Flexible grid network. • Water Resources Allocation Planning (WRAP). • Drinking water safety planning. • Leakage management plan and monitoring, increased investment in targeted solutions. • On-going resource and asset availability monitoring and response.	Compliance with asset operating and management plans reviewed by management and Service Delivery compliance team. Certified environmental ISO 14001, Quality ISO 9001 and asset management IS O55001 compliance. Integrated Management System. Programme of inspections and audits. Water quality sample inspection regime. Asset integrity: policy and inspection programme. Capital programme PMO. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme. External technical auditor. SHE committee.
Protect the environment We safely abstract and discharge to the water environment avoiding pollution and manage our substantial land holdings to minimise our carbon impact.	We have 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.		• ISO certified environmental and quality management systems. • Investment programmes in waste water treatment, networks and bathing waters. • Pollution incident reduction plan. • Land, coast and river management programmes. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives.	Operational and line management review. Asset operating and management plans compliance reviews by Service Delivery compliance team. ISO compliance monitored through integrated management system. Asset integrity: policies and inspection programme Legal Services. Capital programme assurance. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme. External technical auditor. SHE committee.
Climate change resilience We ensure that we can maintain essential services into the future and able to deal with the impacts of population growth, climate change and extreme weather conditions.	We have clarified our 25 year strategy and are developing frontier plans, optimising innovative partnership solutions.		• Climate change strategy and WRAP. • Investment programme in water efficiency, flood risk management. • Investment to increase renewable energy generation. • Innovation programme to introduce technology to optimise future energy efficiency. • Insurance. • Collaboration with Local Resilience Forum and other partnerships.	Operational and line management review. ISO compliance monitored through integrated management system. Asset integrity: policies and inspection programme. Asset strategy and planning. PR19 programme management and assurance. Annual internal audit programme. External technical auditor.

				SHE committee.
Customer trust We consult with customers to understand what they expect of us. We deliver our commitments.	We continue to prioritise the quality of service delivery. Significant capital schemes are delivering improvements in service.		• Focus on outcomes for customer at the heart of our performance management and prioritisation processes, improvement is monitored through customer forum. • Customer forum and online Customer Panel consultation drives our strategy and plans. • Transparent and assured reporting. • Customer support services and investment programme.	Operational and line management review. Data analytics provides live assurance over compliance with policies and procedures. ISO compliance monitored through integrated management system. Regulation, Service Delivery and Loop assurance teams test compliance with agreed policy and procedure. OH&S specialist team; good practice policies and procedures, compliance is checked through inspection and audit programme. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme. External technical auditor. Corporate Responsibility Committee.
Financial sustainability We manage the effects of changes to debt market prices, interest rates, revenue and competition.	In addition to strong business as usual financial control key restructuring programmes are delivering improvements in our financial resilience.		• Blueprint business plan. • Financial governance of all expenditure and costs, including the Board Investment Committee. • Supporting customer affordability and managing customer debt. • Financial restructuring programmes. • Innovation programme preparing for future challenges.	Compliance with finance regulations and Corporate Governance Manual is monitored by operational and line management through authorisation procedures. Finance Business Partners provide budget monitoring. Loop assurance team. Financial governance group. Governance and compliance team provide assurance over commercial and procurement controls. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme. Statutory external auditors risk based programme. Board audit committee.
Security We protect our people, assets and information.	The security threat is ever present, but we continue to strengthen our controls through improved security culture and awareness.		• Security steering group and forum oversee the delivery of security policies and procedures. • Delivery of information security projects. • Group wide security communication campaigns to drive control improvements. • Training and development of all colleagues. • Development of In-house team and partner expertise and experience.	Operational and line management authorisation. Compliance with operational, information and cyber security policy and procedures is overseen by technical specialist teams. ISO 27001 compliance is monitored through Information Security team. Business-wide security forum and steering group oversee application of security policy and procedures. Data Protection Officer is overseeing development of GDPR compliant policies and procedures, including inspection programme. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme
Talent, culture and succession We plan to ensure we have the talent and culture to achieve our objectives now and in the future.	We recognise the challenge of change on our colleagues. We are developing our culture, succession plans and skills to improve our agility.		• Working with trade union and colleagues on change delivery. • Speak up (whistleblowing) policy. • Kelda-wide colleague engagement events. • External verification: BiTC and NES quality standards. • Management and corporate development programmes. • Industry leading incentives and reward.	Dedicated HR team set policies and procedures, compliance is monitored through line management review and authorisations. Responsible leader's framework sets core and functional competencies, achievement monitored through annual performance management cycle. Capacity and capability to achieve performance and deliver programmes of change is monitored by Human Resources

				leadership team and overseen by Risk Committee. Colleague trust is monitored through Kelda Voice Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment Annual internal audit programme.
Water sector reform We are resilient to market change.	We have successfully managed our response to the water sector market opening. We remain alert to the on-going risks and future challenge.		• Yorkshire Water remains a legally integrated company at market opening, comprising Wholesale, Household Retail and Yorkshire Water Business. • Market Architecture Plan and Wholesale-Retail Code Compliant processes. • Cultural change is monitored and training delivered. • Physical and IT systems are separated. • All support and shared services provided are governed by service level agreements.	Operational awareness of procedures and controls through whole business and tailored training. Wholesale-Retail policy and procedures are developed and compliance monitored by Regulatory Compliance team. Data analytics used to provide live assurance over operation of separation controls. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme. Assurance to Board Audit Committee.
Data protection We are confident that our management of personal data achieves expected international standards.	We recognise this is a key risk across the business. We have a detailed action plan to deliver consistent compliance with General Data Protection Regulation (GDPR).		• Security questionnaire for data transfers. • Information security monitoring. • Asset discovery exercise. • Classification handling standards. • Information security breach procedure • Controls to respond to a heightened terrorist response.	Business wide training on requirements of Data Protection provided, compliance monitored by operational and line management. Data Protection Officer is overseeing development of GDPR compliant policies and procedures, including inspection programme. Data Protection working group overseeing delivery of development plan across whole business. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme.
Competition Act Our processes and actions are compliant with the expectations of the Act.	Legal Services and Regulation teams have driven a significant training and awareness programme. Compliance with expected controls is monitored.		• Internal separation of existing water supply licensing activities from the design of future retail competition market operations. • Water Act implementation programme prepared the business for separation, including tailored training for all staff. • Separate non-household retail function and accountability established • Market Operator Services Limited (MOSL) engagement, dissemination and consultation on standards and codes within Yorkshire Water. • Separate market operations team established within Regulation. • Dissemination of the proposed standards and codes is conducted within Yorkshire Water. • Assurance of legal compliance generates actions which are reviewed and acted on.	Operational awareness of procedures and controls through whole business and tailored training. Review of policies and procedures in line with Competition Act provided Legal Services and external advisors. Risk Committee: monthly executive review of risk, controls, action plans. Control risk self-assessment. Annual internal audit programme.

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, PwC, has reviewed the financial information to confirm it is true and fair based on the state of affairs of the and that the Group and Company financial statements have been prepared in accordance with accounting policies.

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 2017 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2017

Corporate Governance Report

Throughout the year the Board remained accountable to the Group's shareholders for maintaining standards of corporate governance.

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

The Board of directors

The Board held meetings when it is considered appropriate or where business needs required. The Board held ten meetings during the year.

At the end of the year, the Board comprised a non-executive chairman, two executive directors and nine non-executive directors. Richard Parry-Jones stepped down as Chair on 31 May 2016 and subsequently resigned from the Board. Anthony Rabin was appointed as interim Chairman on 1 June 2016 and then Chairman on 9 September 2016. Biographies of the directors are contained in the Directors' Report on pages 60 to 63.

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 2017 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 1 to 56 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 2016/17 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 annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2017. The Directors' Report should be read in conjunction with the Strategic Report. The Corporate Governance Report on pages 57 to 58 forms part of this Directors' Report.

Financial results for the year

The Group loss for the year after tax was £431.0m (2016: £319.9m).

Dividends

Dividends of £8.2m were paid during the year (2016: £10.6m).

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 56.

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

Principal activities

The principal activities of the Group are the supply of clean water and the treatment and disposal of wastewater. 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, Kelda Water Services, Keyland, 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 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.

Directors

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

Richard Parry-Jones	(resigned 31 May 2016)
Anthony Rabin	(appointed 1 June 2016)
Scott Auty	
Paul Barr	
Simon Beer	(appointed 20 December 2016)
Liz Barber	
Vicky Chan	
Andrew Dench	
Milton Fernandes	(resigned 8 May 2017)
Holly Koeppel	
Aparna Narain	(resigned 28 November 2016)
Michael Osborne	
Richard Flint	
Jane Seto	

Biographies

Anthony Rabin
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 Holdings Limited on this date. Anthony has previously held roles at Balfour Beatty plc, including as an executive director for 10 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).

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 BITC Water Taskforce, a trustee of the global water and sanitation charity WaterAid 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 Group from Ernst & Young LLP (EY) where she held a number of senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. She had been with EY since 1987 and in that time worked with some of the largest companies in the UK. She specialised in delivery of services to the water industry, including a number of 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 Group plc.

Scott Auty
Appointed to the Board as a non-executive director on 10 December 2010. Scott is a director of Deutsche Asset Management, a division of Deutsche Bank. He is responsible for the origination of infrastructure investment opportunities and managing the valuation, due diligence and execution process for new acquisitions, as well as the ongoing management of the acquired assets. Prior to Deutsche Asset and Wealth Management, he was at NM Rothschild advising on a range of corporate finance and M&A transactions in the infrastructure sector.

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 DP World Australia Limited and Itínere Infraestructuras, S.A.

Andrew Dench
Appointed to the Board as a non-executive director on 30 September 2015. Andrew joined the infrastructure team in the Private Equity and Infrastructure department of GIC in 2015 with responsibility for global infrastructure asset management. Prior to GIC he was Deputy CEO and CFO at Veolia Water UK, Ireland and Northern Europe, CFO at Electricity North West and Head of Corporate Finance and Change at the London Stock Exchange Group. Andrew also spent fifteen years in investment banking at Morgan Stanley and Credit Suisse, providing strategic and capital markets advice largely in the infrastructure, utilities, energy and natural resources sectors. Andrew graduated from Strathclyde Business School with a Post-Graduate Diploma in Business IT Systems and the University of Glasgow with an M.A. (Hons), first class, in Economics. Andrew also studied pre-clinical medicine at Oxford University.

Holly Koeppel
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.

Michael Osborne
Appointed to the Board as a non-executive director on 31 January 2013. He is a Principal at Corsair, a business unit of Corsair Capital. Michael is also a director of Itínere Infraestructuras, S.A.

Jane Seto
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.

Former directors

Richard Parry-Jones
Chairman of the Board from 25 March 2015 until 31 May 2016. Richard held roles at Ford Motor Company over a 40-year period including Group Vice-President, Global Product Development and Chief Technical Officer. Following retirement, Richard combined a career in consultancy with Board roles at GKN plc, where he is the senior independent director, and at the UK's rail infrastructure and system operator, Network Rail, where he was non-executive Chairman from 2012 until June 2015. Richard also provides public policy advice to Governments in Westminster and Cardiff on topics ranging from industrial

policy to transport and energy, and works with universities to improve and promote teaching and research excellence in engineering.

Aparna Narain (resigned 28 November 2016)
Appointed to the Board as a non-executive director on 1 April 2013. 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.

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 rand 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 for the purposes of the Companies Act 2006.

Shareholders

As at the 31 March 2017, the shareholders of the Group were as follows.

- RREEF Pan-European Infrastructure Fund: 23.4% 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.), 30.3% holding
- GIC: 26.3% shareholding
- Prudential: 10% holding
- SAS Trustee Corporation: 10% holding

There have been changes to shareholder ownership since 31 March 2017. Prudential are no longer a shareholder in the Group and GIC now own 33.6% and SAS Trustee Corporation 12.8%. Please note these ownership percentages are rounded to one decimal place and therefore do not exactly equal 100%.

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £5.5m (2015: £5.1m) was committed to research and development.

Valuation of 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.

Certain classes of the Group's tangible fixed assets, infrastructure assets, were revalued in the year as detailed in note 13 to the financial statements. As a result of the valuation carried out at 31 March 2017 the carrying value of the infrastructure assets was increased by £280m and the resulting revaluation surplus taken to the revaluation reserve.

Certain classes of the Group's land and buildings are also held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2014. The assets subject to a policy of revaluation will continue to be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

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. This is also described in the Trusted Company section of the Strategic Report. The Company Values provide the framework for the consistent behaviours expected from colleagues.

Colleague engagement takes place using a range of channels including regular operational 'hubs' covering over 900 operational employees, the intranet, 'Team Talks' and 'Talk Back' sessions with line managers and directors, annual business plan cascades, 'people leader' events to cascade key business performance messages and a bi-annual employee engagement survey. 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 Group, 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 taken into account in decision making.

The Group is committed to providing a diverse and inclusive working environment which reflects its customer base and is committed to equality and opportunity for all. A director sponsored Diversity and Inclusion Working Group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the Group are being met. The Group has three prioritised areas of focus, Ability, Gender and Ethnicity, these key areas help us become a more diverse and inclusive employer and better reflect our customer base. Further details on Championing Diversity for Yorkshire Water, the main Group employer, are shown in the Sustainable Resources section of the Strategic Report on pages 29 to 30.

The Group focuses its recruitment activities so that they are attracting colleagues from all walks of life and experiences to encourage even greater innovation and creativity. They proactively identify roles within the business that could be particularly suitable for individuals with disabilities. The Group runs an 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 Group is now part of a group leading the role out of an internship programme across the region. The Group is a two tick 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. The Group proactively supports national Women in Engineering week by running a number of events with girls from local schools. This year the Group is re-engaging with girls who visited the previous year's events with a view to tracking them and their aspirations and how they have changed over a number of years. The Group 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 the Group will recruit 160 apprentices to create a strong pipeline of talent for the future. The Group 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 Group 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. This includes promoting the Group's activities at the main political parties' annual conferences.

As part of its stakeholder engagement programme the Group incurred expenditure of £4,923 (2016: £1,700) in such activities.

Independence of the external auditors

The Group has reviewed its auditor independence policy in the light of these changes. The policy establishes procedures and guidance by which the Group's relationship with its external auditor is governed. This enables the Committee to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process.

The Committee does not pre-approve the provision of any non-audit work by the external auditor. The allocation of each piece of non-audit work to the external auditor is to be approved by the Group Audit Committee before the work commences. The Group Audit Committee satisfies itself that the auditor is best placed to provide the service and that a market rate has been obtained. Minor amendments have been made to the list of non-audit services that cannot be provided by the auditor.

From the financial year starting 1 April 2020, the Group Audit Committee has set a cap on fees for non-audit work across the Group in any one financial year of 70% of the statutory external audit fee for the whole Group. The only exception to this cap is the fee for work required by law or regulation. The cap shall be calculated by comparing the fees for non-audit work provided by the external auditor or networked firm to the Kelda Group in any one year with the average statutory audit fee, excluding fees for any audit related services such as comfort letters, over the previous three years.

In addition to these updated areas the key features of the auditor independence policy are:

- Clear accountability of the external auditor to the Audit Committee and the Chairman of the Board.
- The external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff.
- The external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity.
- The external auditor is required to confirm in writing to the committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements.
- The external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the company and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost.
- Rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor.

The split between audit and non-audit fees and a description of the non-audit fees for the year to 31 March 2017 appears in note 4 to the financial statements. The amount and nature of non-audit fees are considered by the Group Audit Committee not to affect the independence or objectivity of the external auditor.

Financial instruments

Details are provided in the financial statements section in note 22 and in the strategic report on page 37.

Future developments

Future events are dealt with as part of the Strategic Report on pages 1 to 56.

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 Group has available a combination of cash and committed undrawn bank facilities totalling £1,090.9m at 31 March 2017 (2015/16: £891.6m). 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.

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 auditors are unaware; and
- Each director has taken all the steps as 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.

Appointment of new auditor

In compliance with EU audit reform the Board agreed that as PwC have been providing the Group external audit since 2007/08 it would re-tender the audit for the financial year ending 31 March 2018. The Audit Committee approved the tender and evaluation process in September 2016. Tenders were invited from leading audit firms Ernst Young, Deloitte and Grant Thornton as well as the incumbents. KPMG were unable to tender due to independence considerations.

An access day was held with management, the Chairman and Audit Committee Chair on 24 January 2017. Tender documents were assessed according to the approved methodology. Three firms were selected to progress to the final phase of the tender process. This involved final detailed presentations to Committee on 23 March 2017. The Committee agreed on the preferred candidate and made a recommendation to Board.

The recommendation to appoint Deloitte to succeed PwC was accepted by Board at the meeting on 23 March 2017, and is effective once PwC conclude the 2016/17 audits of the Kelda Group subsidiaries later in 2017.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

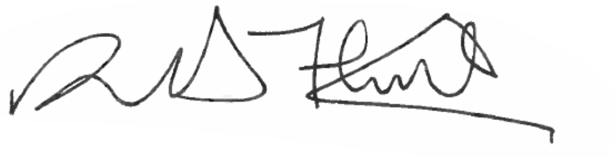
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 2017 and signed on its behalf by:



Richard Flint, **Director**
13 July 2017

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

Report on the Group financial statements

Our opinion

In our opinion, Kelda Eurobond Co Limited's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Consolidated statement of financial position as at 31 March 2017;
- the Consolidated statement of profit or loss and Consolidated statement of comprehensive income/(expense) for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.
In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 69, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Kelda Eurobond Co Limited
Independent Auditors' Report to the Members of Kelda Eurobond Co Limited
for the year ended 31 March 2017

Other matter

We have reported separately on the Company financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2017.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
13 July 2017

Consolidated statement of profit or loss
for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Revenue		**1,004.2**	977.3
Operating costs before exceptional items	*4*	**(724.5)**	(707.5)
Exceptional items	*5*	**31.5**	(426.3)
Total operating costs		**(693.0)**	(1,133.8)
Operating profit/(loss) before share of associates and joint ventures		**311.2**	(156.5)
Share of associates' and joint ventures' profit/(loss) after tax		**-**	(0.3)
Operating profit/(loss) from continuing operations		**311.2**	(156.8)
Finance income before exceptional items	*7*	**22.2**	25.3
Exceptional finance income	*5*	**54.5**	137.1
Total finance income		**76.7**	162.4
Finance costs before exceptional items	*7*	**(403.5)**	(365.7)
Exceptional finance costs	*5*	**(521.1)**	(4.4)
Total finance costs		**(924.6)**	(370.1)
Loss from continuing operations before taxation		**(536.7)**	(364.5)
Tax credit	*8*	**114.7**	50.3
Loss from continuing operations		**(422.0)**	(314.2)
Loss from discontinued operations net of tax	*9*	**(9.0)**	(5.7)
Total loss for the year		**(431.0)**	(319.9)

The notes on pages 79 to 134 form an integral part of the financial statements.

Kelda Eurobond Co Limited
Consolidated Financial Statements
for the year ended 31 March 2017

Consolidated statement of comprehensive income/(expense)
for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Loss for the year		**(431.0)**	(319.9)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gains/(losses) on revaluation of land and buildings:			
Gains on revaluation of infrastructure assets before taxation	*13*	**279.8**	-
Taxation	*8*	**(45.1)**	5.0
		234.7	5.0
Remeasurements of post-employment benefit obligations:			
Remeasurement of defined benefit pension before taxation	*20*	**(80.1)**	134.2
Remeasurement of employer funded retirement benefit scheme before taxation		**(2.0)**	0.9
Taxation	*8*	**8.8**	(26.1)
		(73.3)	109.0
Items that may be subsequently reclassified to profit or loss:			
Gains/(losses) on hedges taken to equity:			
Gains on hedges taken to equity before taxation		**2.0**	0.9
Taxation		**(0.7)**	(0.8)
		1.3	0.1
Other comprehensive income for the year, net of tax		**162.7**	114.1
Total comprehensive loss for the year		**(268.3)**	(205.8)

Kelda Eurobond Co Limited
Consolidated Financial Statements
for the year ended 31 March 2017

Consolidated statement of financial position
as at 31 March 2017

	Note	**2017** **£m**	2016 £m
Non-current assets			
Intangible assets	*11*	**1,450.4**	1,504.9
Financial assets	*12*	**-**	152.3
Property, plant and equipment	*13*	**7,378.2**	7,006.0
Investments in associated undertakings and joint ventures		**0.2**	0.9
Loans to associated undertakings and joint ventures		**0.5**	0.3
Trade and other receivables	*14*	**121.8**	73.9
Derivative financial assets	*22*	**141.3**	90.8
Post-employment benefit surplus	*20*	**-**	58.1
		9,092.4	8,887.2
Current assets			
Inventories		**2.7**	2.7
Trade and other receivables	*14*	**212.5**	208.2
Tax assets		**1.4**	2.5
Cash and cash equivalents	*15*	**276.1**	77.6
Assets held for sale	*16*	**242.8**	-
		735.5	291.0
Total assets		**9,827.9**	9,178.2
Current liabilities			
Trade and other payables	*17*	**(335.0)**	(335.5)
Deferred grants and contributions on depreciated assets		**(2.9)**	(4.6)
Tax liabilities		**-**	-
Borrowings	*15*	**(171.6)**	(169.2)
Financial liabilities	*22*	**-**	-
Liabilities directly associated with assets held for sale	*16*	**(208.4)**	-
		(717.9)	(509.3)
Non-current liabilities			
Borrowings	*15*	**(6,207.0)**	(5,823.2)
Trade and other payables	*17*	**(4.6)**	(29.4)
Financial liabilities	*22*	**(2,066.8)**	(1,651.4)
Deferred grants and contributions on depreciated assets	*18*	**(422.2)**	(402.4)
Post-employment benefits deficit	*20*	**(8.7)**	-
Provisions for other liabilities and charges		**(2.1)**	(2.4)
Deferred income tax liabilities	*19*	**(421.3)**	(506.3)
		(9,132.7)	(8,415.1)
Total liabilities		**(9,850.6)**	(8,924.4)
Net (liabilities)/assets		**(22.7)**	253.8
Equity attributable to owners of the parent			
Ordinary shares	*21*	**750.0**	750.0
Hedging reserve		**(37.8)**	(39.1)
Revaluation reserve		**440.4**	205.7
Share-based payment reserve		**-**	-
Accumulated losses		**(1,175.3)**	(662.8)
Total equity		**(22.7)**	253.8

The financial statements on pages 73 to 134 were approved by a duly authorised committee of the Board of directors on 13 July 2017 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2017
Kelda Eurobond Co Limited
Registered in England no. 06433768

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

Kelda Eurobond Co Limited
Consolidated Financial Statements
for the year ended 31 March 2017

Consolidated statement of changes in equity
as at 31 March 2017

	Equity shares £m	Hedging reserve £m	Revaluation reserve £m	Share-based payment reserve £m	Accumulated losses £m	Total equity £m
At 1 April 2015	750.0	(39.2)	200.9	5.2	(446.7)	470.2
Shares redeemed in the year	-	-	-	-	-	-
Loss for the year	-	-	-	-	(319.9)	(319.9)
Transfer between reserves	-	-	(0.2)	(5.2)	5.4	-
Dividends	-	-	-	-	(10.6)	(10.6)
Total included in the consolidated statement of comprehensive income	-	0.1	5.0	-	109.0	114.1
At 1 April 2016	750.0	(39.1)	205.7	-	(662.8)	253.8
Shares redeemed in the year	-	-	-	-	-	-
Loss for the year	-	-	-	-	(431.0)	(431.0)
Reduction in capital	-	-	-	-	-	-
Dividends	-	-	-	-	(8.2)	(8.2)
Total included in the Group statement of comprehensive expense	-	1.3	234.7	-	(73.3)	162.7
At 31 March 2017	**750.0**	**(37.8)**	**440.4**	**-**	**(1,175.3)**	**(22.7)**

Consolidated statement of cash flows
for the year ended 31 March 2017

	Note	**2017** **£m**	2016 £m
Cash flow used in operating activities	*24*	**600.3**	577.3
Income taxes (paid)/received		**(1.2)**	2.5
Interest paid		**(344.6)**	(280.6)
Net cash generated from operating activities		**254.5**	299.2
Cash flows from investing activities			
Interest received		**20.0**	22.2
Increase in loans to associates and joint ventures		**0.4**	(0.6)
Loans granted to parent company		**(45.4)**	-
Net proceeds from joint venture disposal		**-**	8.1
Proceeds on disposals of property, plant and equipment		**1.5**	6.8
Purchases of property, plant and equipment		**(415.5)**	(298.1)
Capital grants and contributions		**37.1**	17.1
Net cash used in investing activities		**(401.9)**	(244.5)
Cash flows from financing activities			
Borrowings raised (net of fees)		**450.3**	19.5
Dividends paid		**(8.2)**	(10.6)
Repayments of borrowings		**(20.2)**	(33.9)
Repayment of obligations under finance leases and hire purchase agreements		**(76.0)**	(34.1)
Net cash generated from / (used in) financing activities		**345.9**	(59.1)
Net increase/(decrease) in cash and cash equivalents		**198.5**	(4.4)
Cash and cash equivalents at the beginning of the year		**77.6**	82.0
Cash and cash equivalents at the end of the year	*15*	**276.1**	77.6

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2017 were authorised for issue by the Board of directors on 13 July 2017 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 domiciled in England and Wales. 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 2017.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 86 to 87.

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.

Revenue

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

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

2. Accounting policies _(continued)_

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.

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.

2. Accounting policies *(continued)*

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.

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 IFRS5:

- 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.

2. Accounting policies *(continued)*

Property, plant and equipment

Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets 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 - 60 years
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Water mains and sewers	40 - 125 years
Earth banked dams and reservoirs	200 years

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

In the UK regulated water services business, infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage, reservoirs, dams and sea outfalls.

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

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Prior to this date the Group recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23 'Borrowing costs'.

Impairment of property, plant and equipment and goodwill

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

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

Accounting for leases

Finance leases

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

Operating leases

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

2. Accounting policies _(continued)_

Government grants and contributions

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

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

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

Investments in joint ventures and associates

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

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

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

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

Inventories

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

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.

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.

2. Accounting policies _(continued)_

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.

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

2. Accounting policies *(continued)*

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.

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.

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.

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 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.

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.

Principal areas of judgement

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

- Assumptions relating to the retirement benefit deficit

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the valuation of the pension obligation include the discount rate of 2.50% (2016: 3.55%). Any changes in these assumptions will impact the carrying amount of the pension obligation.

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

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

- Fair value of financial instruments

The Group's accounting policy for financial instruments is detailed on pages 83 to 85. In accordance with IFRS 13 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. The fair value of financial instruments would be £33.8 million higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £35.2 million higher or lower were the credit curve assumption to change by 10 basis points.

- Goodwill impairment testing

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. These calculations include estimates of future cash flows of each cash generating unit and the use of

2. Accounting policies _(continued)_

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

In reviewing goodwill for impairment the Group applied a discount rate of 5.75% (2016: 6.15%) and a long term inflation rate of 3.00% (2016: 3.00%) to the expected future cash flows of the Group. Inflation is deemed to be a key driver of revenue and costs for the Group. On this basis the recoverable amount of goodwill exceeds its carrying amount by £nil (2016: £400.0m). Were the discount rate or inflation rate used to increase from management's estimates or cash flows to decrease from managements assumption, the headroom available in the goodwill impairment review would be reduced. Further details relating to goodwill are disclosed in note 11 of the financial statements.

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on page 82 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 2017 current trade receivables were £133.5m (2016: £125.2m), before provision for impairments.

New standards and interpretations

The following standards have been adopted by the Group for the first time for the financial year beginning 1 April 2016 and do not have a material impact on the Group:

- Amendment to IAS 32 'Financial instruments presentation - offsetting financial assets and liabilities'
- Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities
- Amendments to IAS 36 'Impairment of assets'
- Amendment to IAS 39 'Financial instruments: Recognition and measurement'
- Amendments to IFRS 10, 11 and 12 on transition guidance
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosures of interests in other entities'
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associates and joint ventures'
- IFRIC 21 'Levies'.

2. Accounting policies *(continued)*

The Group has not applied the following amendments to standards which are EU endorsed but not yet effective:

- IFRS 9 – financial instruments
- IFRS 15 – revenue from contracts with customers.

IFRS 9 – ‘financial instruments’ is effective for periods beginning on or after January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. It is anticipated the impact of this standard on the financial position and performance of the Group will be minimal and effects will principally relate to amendment and extension of current disclosures.

IFRS 15 – ‘revenue from contracts with customers’ is effective for periods beginning on or after January 2018 and replaces IAS 18 ‘revenue’. IFRS 15 is more prescriptive in relation to what should be included within revenue and provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations. The Group is currently assessing the impact of IFRS 15 on the future financial performance of the Group.

Whilst not yet EU endorsed, the Group anticipates that IFRS 16 – ‘leases’ will be effective for periods beginning on or after January 2019. 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. It is anticipated that the new standard will not have a material impact on the income statement or balance sheet position of the Group.

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. 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 (CODM). The Board considers the business from a business segment perspective.

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

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

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	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	(446.7)	(70.7)	(4.0)	9.6	(511.8)	4.6	(507.2)
Exceptional costs (notes 5 and 9)	31.5	(7.5)	-	(4.2)	19.8	-	19.8
	306.6	**4.9**	**0.6**	**16.4**	**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)
Loss before taxation							**(543.1)**
Tax credit							112.1
Loss for the year attributable to owners of the parent							**(431.0)**

In November 2016, the Group classified 10 entities that make up the majority of the UK service operations segment as a discontinued operation (note 9). The CODM continues to monitor and review the financial results of the discontinued operation and will do so until the discontinuance is complete. The results of the discontinued operation continue to be disclosed in the UK service operations segment.

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	13,645.4	231.5	28.1	(4,353.2)	9,551.8
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 / (liabilities)	**5,758.9**	**31.0**	**26.6**	**(5,839.2)**	**(22.7)**
Other information					
Capital additions	**385.7**	**16.0**	**-**	**3.0**	**404.7**

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 group 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 are 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.

3. Segmental information *(continued)*

Year ended 31 March 2016

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	968.2	176.5	5.4	11.4	1,161.5	(5.0)	1,156.5
Inter-company revenue	(3.7)	(89.0)	(0.4)	-	(93.1)	-	(93.1)
External revenue	**964.5**	**87.5**	**5.0**	**11.4**	**1,068.4**	**(5.0)**	**1,063.4**
Depreciation	(270.1)	(15.1)	-	(1.6)	(286.8)	-	(286.8)
Amortisation of deferred grant income	(4.3)	-	-	1.4	(2.9)	-	(2.9)
Other operating costs	(408.2)	(63.3)	(3.8)	(8.7)	(484.0)	5.0	(479.0)
Exceptional costs (notes 5 and 9)	(26.5)	-	-	(405.3)	(431.8)	-	(431.8)
	255.4	**9.1**	**1.2**	**(402.8)**	**(137.1)**	**-**	**(137.1)**
Less associates' and joint ventures' loss					(0.3)	-	(0.3)
Group operating profit					**(137.4)**	**-**	**(137.4)**
Finance income							25.3
Finance costs							(389.9)
Exceptional items in finance income							137.1
Exceptional items in finance costs							(4.4)
Profit before taxation							**(369.3)**
Tax credit							49.4
Profit for the year attributable to owners of the parent							**(319.9)**

3. Segmental information *(continued)*

Year ended 31 March 2016

	UK regulated water services £m	**UK service operations £m**	**Property development £m**	**Other companies and consolidation adjustments £m**	**Total £m**
Assets	8,435.6	388.6	34.8	241.6	9,100.6
Investments in associates and joint ventures accounted for by the equity method	-	-	-	-	-
Liabilities	(2,673.7)	(225.0)	(8.7)	(24.6)	(2,932.0)
Net debt	(4,611.0)	(139.5)	-	(1,164.3)	(5,914.8)
Net assets	**1,150.9**	**24.1**	**26.1**	**(947.3)**	**253.8**
Other information					
Capital additions	**271.0**	**9.0**	**-**	**12.3**	**292.3**

Net debt of £5,914.8m as noted above includes cash of £60.1m and short term deposits of £17.5m which are included in the balance sheet within total assets; and borrowings of £5,992.4m which are included on the balance sheet in total liabilities. Net debt is defined in note 22, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £1,146.2m 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 2016, this being the case the Group has one single geographical segment, being the United Kingdom.

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4. Operating costs from continuing operations before exceptional items

	2017 **£m**	2016 £m
Own work capitalised	**(43.5)**	(34.6)
Raw materials and consumables	**30.5**	28.6
Staff costs (note 6)	**142.9**	132.9
Depreciation of property, plant and equipment (note 13)		
On owned assets		
- UK infrastructure	**76.7**	71.8
- other assets	**206.1**	206.5
On assets held under finance lease		
- UK infrastructure	**1.1**	1.4
- other assets	**6.4**	7.1
Operating lease rentals - minimum lease payments		
- plant and equipment	**1.9**	2.0
- other	**1.5**	1.7
Amortisation of grants and contributions	**(2.8)**	(2.9)
Amortisation of intangible assets (note 11)	**7.4**	4.4
Research and development	**5.5**	5.1
Movement of fair value of energy contracts	**(3.6)**	10.0
Net Impairment of trade receivables	**19.7**	18.8
Profit on disposal of joint venture	**-**	(4.2)
Profit on disposal of property, plant and equipment	**(0.6)**	(2.8)
Other operating income	**(6.5)**	(1.0)

Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations, excluding exceptional items, as quoted in the key financial performance indicators of the Group continuing activities on page 43, is calculated as follows:

	2017 **£m**	2016 £m
Operating profit/(loss) from continuing operations before share of associates and joint ventures	**311.2**	(156.8)
Add back exceptional items (note 5)	**(31.5)**	426.3
Add back depreciation and amortisation of capital grants (as above)	**287.5**	283.8
Add back amortisation of intangible assets (as above)	**7.4**	4.4
EBITDA from continuing operations excluding exceptional items	**574.6**	557.8

Auditors' remuneration

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

	2017 **£m**	2016 £m
Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements	**-**	-
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	**-**	-
	0.3	0.3

5. Exceptional items

Exceptional items from continuing operations comprise:

	2017 **£m**	2016 £m
Included in operating costs:		
Release of KGI Bridgeport company provision	**-**	0.2
Insurance receipt	**46.0**	10.0
Operating costs	**(17.9)**	(1.5)
Reversal of / (impairment) of assets due to flooding	**3.4**	(35.0)
Impairment of goodwill	**-**	(400.0)
	31.5	(426.3)
Included in finance income		
Movement of fair value of index linked swaps	**-**	129.0
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**41.5**	-
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**13.0**	8.1
	54.5	137.1
Included in finance costs		
Movement of fair value of index linked swaps	**(453.4)**	-
Movement of fair value of finance lease interest rate swaps	**(0.3)**	(0.7)
Movement of fair value of cross currency debt	**(37.4)**	(3.7)
Movement in fair value of debt associated with fixed to floating interest rate swaps	**(30.0)**	-
	(521.1)	(4.4)

The directors have assessed goodwill for impairment and ascertained that there was no impairment of goodwill (2016: £400m) for the year ended 31 March 2017.

Last year an exceptional charge of £26.5m was recognised as a result of the impact of severe flooding at certain operational sites of Yorkshire Water during the year. This charge consisted of an asset impairment of £35.0m, operating costs of £1.5m and insurance income of £10.0m. At 31 March 2017 an exceptional income of £31.5m was recognised. This consists of £46.0m in insurance income, £17.9m of operational costs and a £3.4m adjustment to reduce the original asset impairment charge.

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in the retail price index (RPI) by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2017 resulted in a £2,156.5m liability (2016: £1,734.3m). Of this, £2,033.0m (2016: £1,579.6m) is recognised within other financial liabilities (note 22) and £123.5m (2016: £154.7m) is recognised within long-term borrowings (note 15). This financial year has seen the liability on the swaps (classified as financial liabilities) increase by a further £453.4m due to fair valuation.

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Group to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2017 resulted in a £25.2m liability (2016: £24.9m). The year on year increase of the liability of £0.3m (2016: £0.7m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance income include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception. The combined cross currency interest rate swaps 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 2017. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £4.1m credit, being £41.5m income less £37.4m charge per the above table (2016: £3.7m net charge), to the income statement.

5. Exceptional items (continued)

Exceptional finance income also include the fair value movement of fixed to floating interest rate swaps which were nominated as fair value through profit and loss on inception. These fair value interest rate swaps 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 2017. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £16.9m charge (2016: £8.0m income) to the income statement.

6. Directors and employees

	2017 Continuing Operations	**2017 Discontinued Operations**	**2017 Total**	2016 Continuing Operations	2016 Discontinued Operations	2016 Total
Average monthly number of people employed by the Group						
UK regulated water services	**2,605**	**-**	**2,605**	2,321	-	2,321
Other activities	**850**	**219**	**1,069**	806	213	1,019
	3,455	**219**	**3,674**	3,127	213	3,340

	2017 £m	**2017 £m**	**2017 £m**	2016 £m	2016 £m	2016 £m
Total employment costs:						
Wages and salaries	**116.9**	**7.5**	**124.4**	106.1	7.0	113.1
Social security costs	**12.3**	**0.9**	**13.2**	9.6	0.7	10.3
Other pension costs	**13.7**	**0.7**	**14.4**	17.2	0.7	17.9
	142.9	**9.1**	**152.0**	132.9	8.4	141.3

Directors' emoluments

	2017 £m	2016 £m
Aggregate emoluments	**2.0**	2.1

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

	2017 £m	2016 £m
Aggregate emoluments	**1.1**	1.0

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

During the year ended 31 March 2017, one (2016: one) director was a contributory member 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 2017, was £0.2m (2016: £0.2m).

During the year ended 31 March 2017, two (2016: 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.

Two directors resigned during the financial year. Compensation for loss of office of £0.1m (2016: £nil) was paid during the year.

7. Finance income and finance costs

	2017	2016
	£m	£m
Finance income		
Interest on bank deposits	**0.3**	0.8
Interest receivable from index linked swaps	**7.8**	9.3
Interest receivable from cross currency interest rate swaps	**11.4**	13.2
Interest receivable from parent company	**2.7**	2.0
Finance income before exceptional items	**22.2**	25.3
Exceptional finance income (note 5)	**54.5**	137.1
Total finance income	**76.7**	162.4
Finance costs		
Interest payable on guaranteed bonds	**161.4**	179.6
Interest payable on US Dollar bonds	**8.8**	11.4
Interest payable on AU Dollar bonds	**2.0**	2.0
Amortisation of issue costs in respect of bonds	**2.6**	1.2
Total finance costs for bonds	**174.8**	194.2
Bank loans and overdrafts	**23.4**	20.8
RPI accretion on index linked bonds	**75.7**	21.8
Interest payable on index linked swaps	**41.1**	40.5
Interest payable on bonds issued by Kelda Eurobond Co Limited	**89.5**	84.6
Finance leases	**6.0**	6.3
Change in fair value of financial assets	**2.4**	1.5
Net interest (credit)/cost on pension scheme liabilities (note 20)	**(2.5)**	2.4
Commitment fees and miscellaneous interest	**7.2**	6.6
Finance costs before interest capitalisation and exceptional items	**417.6**	378.7
Interest capitalised	**(14.1)**	(13.0)
Finance costs before exceptional items	**403.5**	365.7
Exceptional finance cost (note 5)	**521.1**	4.4
Total finance cost	**924.6**	370.1

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

8. Tax credit on continuing operations

	2017	2016
	£m	£m
Current tax		
UK Corporation Tax at 20% (2016: 20%)	**-**	-
Adjustments in respect of prior years	**-**	(2.3)
Total current tax charged/(credited) to the income statement	**-**	(2.3)
Deferred tax		
Origination and reversal of temporary differences	**(103.7)**	1.1
Adjustments in respect of prior years	**(1.8)**	(1.6)
Effect of change in tax rates	**(9.2)**	(47.5)
Total deferred credit to the income statement	**(114.7)**	(48.0)
Total tax credit to the income statement	**(114.7)**	(50.3)
Tax relating to items charged to other comprehensive income		
Deferred tax:		
Actuarial (gains) / losses in respect of defined benefit pension schemes	**(8.8)**	26.1
Movement in fair value of hedges	**-**	0.1
Revaluation of infrastructure assets	**45.1**	(5.0)
Revaluation of property, plant and equipment	**-**	(0.3)
Tax charge in the Group statement of comprehensive income	**36.3**	20.9

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 20% (2016: 20%) to the loss on ordinary activities before tax is as follows:

	2017	2016
	£m	£m
Loss from continuing operations before taxation	**(536.7)**	(364.5)
Less: share of associates' and joint ventures' profit before tax	**-**	0.3
	(536.7)	(364.2)
Current and deferred tax on Group loss on ordinary activities at the standard UK tax rate	**(107.3)**	(72.9)
Effects of:		
Expenses not deductible for tax purposes	**9.1**	83.4
Income not chargeable for tax purposes	**(5.5)**	(4.6)
Other timing differences	**-**	(0.1)
Change in deferred tax rate	**(9.2)**	(47.6)
Adjustments in respect of prior years	**(1.8)**	(3.9)
Group relief received for no payment from companies classified as discontinuing	**-**	(4.6)
Group current and deferred tax credited to the income statement	**(114.7)**	(50.3)

The corporation tax rate of 20%, enacted in the Finance Act 2013 and applicable from 1 April 2015, has been used in preparing these financial statements.

The Finance (No 2) Act 2015 will reduce the corporation tax rate to 19% from 1 April 2017 and the Finance Act 2016 will reduce the rate further to 17% from 1 April 2020. These reductions to the corporation tax rate were substantively enacted on 25 October 2015 and 6 September 2016 respectively and accordingly the deferred tax liability at 31 March 2017 has been calculated using these rates.

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

8. Tax credit *(continued)*

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.

The deferred tax credit for continuing operations for the year reflected in the income statement relates to the following:

	2017	2016
	£m	£m
Property, plant and equipment	**(50.1)**	(106.6)
Financial instruments	**(62.7)**	56.8
Retirement benefit obligations	**(1.9)**	1.8
Deferred tax credit	**(114.7)**	(48.0)

9. Discontinued operation

In November 2016 the Group classified 10 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). 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 operation

	2017	2016
	£m	£m
Revenue	**161.0**	147.0
Elimination of intersegment revenue	**(61.9)**	(60.9)
Total revenue	**99.1**	86.1
Expenses	**(127.3)**	(117.4)
Exceptional items	**(11.7)**	(5.5)
Elimination of expenses relating to inter segment sales	**57.3**	56.3
Finance expenses	**(15.0)**	(13.6)
External interest	**(8.8)**	(10.6)
Total expenses	**(105.5)**	(90.8)
Loss before tax	**(6.4)**	(4.7)
Income tax expense	**(2.6)**	(1.0)
Loss after tax	**(9.0)**	(5.7)

Included in operating costs is an exceptional item of £11.6m (2016: £5.5m) for the cost of meeting contractual obligations at the Aberdeen site.

The loss after tax from the discontinued operation of £9.0 million (2016: £5.7 million) is attributable entirely to the owners of the company.

Cash flows from discontinued operation

	2017	2016
	£m	£m
Net cash inflow from operating activities	**30.3**	20.8
Net cash outflow from investing activates	**(15.1)**	(21.8)
Net cash (outflow)/inflow from financing activities	**(11.8)**	1.7
Net cash flows for the year	**3.4**	0.7

10. Dividends

Dividends of £8.2m, 1.09 pence per share, were paid during the year (2016: £10.6m, 1.41 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 2015	76.2	15.9	-	1,800.3	1,892.4
Additions	3.6	-	9.5	-	13.1
Reclassification	-	-	21.5	-	21.5
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**
Accumulated amortisation					
At 1 April 2015	8.6	6.7	-	-	15.3
Amortisation	1.4	0.5	4.4	-	6.3
Reclassification	-	-	0.5	-	0.5
Impairment	-	-	-	400.0	400.0
At 31 March 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**
Net book value carried forward	**-**	**-**	**50.1**	**1,400.3**	**1,450.4**
Net book value brought forward	69.8	8.7	26.1	1,400.3	1,504.9

11. Intangible assets _(continued)_

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.

Impairment tests for goodwill

Existing goodwill of £1,400.3m (2016: £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 following advice from external consultants based on risk factors specific to the industry and circumstances of the Group.

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

	2017	2016
Long term inflation (post 2017)	**3.00%**	3.00%
Discount rate (post-tax)	**5.75%**	6.15%

A further key assumption is the cash flow projections included in the value in use calculation, which include planned efficiency targets.

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2017 (2016: impairment of £400.0m)

12. Financial assets

	2017	2016
	£m	£m
At 1 April	**152.3**	156.8
Additions	**6.6**	6.6
Movement in fair value	**(11.7)**	(11.1)
Transfer to assets held for sale (note 16)	**(147.2)**	-
At 31 March	**-**	152.3

Financial assets relate to guaranteed contractual cash flows due under service concession contracts.

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

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

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

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

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

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	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
Reversal of 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**

During the year the Group capitalised borrowing costs amounting to £11.7m (2016: £13.0m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.72% (2016: 3.92%).

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

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
At 1 April 2015	1,920.9	3,801.6	3,215.0	291.3	9,228.8
Additions at cost	2.9	3.0	11.2	275.2	292.3
Grants and contributions	-	-	-	(17.5)	(17.5)
Transfers on commissioning	84.0	84.1	155.4	(323.5)	-
Reclassification	-	157.2	-	10.7	167.9
Disposals	(4.1)	-	(43.1)	-	(47.2)
At 31 March 2016	**2,003.7**	**4,045.9**	**3,338.5**	**236.2**	**9,624.3**
Accumulated depreciation					
At 1 April 2015	496.6	-	1,811.0	-	2,307.6
Charge for the year	36.8	73.2	176.8	-	286.8
Revaluation	-	32.2	-	-	32.2
Impairment	-	-	35.0	-	35.0
Disposals	(3.0)	-	(40.3)	-	(43.3)
At 31 March 2016	**530.4**	**105.4**	**1,982.5**	**-**	**2,618.3**
Net book amount at 31 March 2016	**1,473.3**	**3,940.5**	**1,356.0**	**236.2**	**7,006.0**

Software development costs with a carrying value of £21.0m were reclassified to intangible assets during the year ending 31 March 2016. Deferred income from infrastructure connection charges previously presented within fixed assets, of £156.7m, were reclassified as deferred income during the year ending 31 March 2016. These adjustments were done in order to align IFRS treatment of these assets for Kelda Eurobond Group with treatment of the individual entities under FRS102.

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	108.6	71.3	181.9	**361.8**
Depreciation	(40.5)	(29.6)	(148.6)	**(218.7)**
Net book amount at 31 March 2017	**68.1**	**41.7**	**33.3**	**143.1**
Net book amount at 31 March 2016	69.8	42.8	37.9	150.5

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

The Group's infrastructure assets were valued at 31 March 2017. 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 £279.8m (2016: nil), 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 2017 by the directors, who concluded that current book values are not materially different to current market values.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,942.9m (2016: £3,865.8m).

Categories of assets revalued as at 31 March 2017 are as follows:

	Revalued amount £m	**Historical cost basis £m**
Infrastructure assets	4,222.3	2,512.9
Non-specialist properties	17.1	14.3
Rural estates	57.2	0.5
Residential properties	2.3	-
Net book amount of assets revalued	**4,298.9**	**2,527.7**

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 2015	80.1	15.7
Disposal of revalued assets	(1.3)	-
Depreciation incurred on revaluation	(0.7)	(0.4)
1 April 2016	78.1	15.3
Disposal of revalued assets	(0.8)	-
Depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2017	**76.6**	**14.9**

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

	Revalued amount £m	Historical cost basis £m
At valuation/cost	4,403.6	3,915.2
Aggregate depreciation	(181.3)	(1,402.3)
Net book amount of assets revalued	**4,222.3**	**2,512.9**

14. Trade and other receivables

	2017 **£m**	2016 £m
Amounts falling due within one year:		
Trade receivables	**133.5**	125.2
Provision for impairment of trade receivables	**(31.9)**	(29.6)
	101.6	95.6
Prepayments and accrued income	**71.7**	88.0
Amounts owed by parent company	**0.6**	0.6
Other tax and social security	**19.3**	9.0
Other receivables	**19.3**	15.0
	212.5	208.2
Amounts falling due in more than one year:		
Amounts owed by parent company	**121.8**	73.8
Other receivables	**-**	0.1
	121.8	73.9

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 £17.1m as at 31 March 2017 have been transferred to Assets held for sale (note 16). This represents trade receivables of £5.0m due in less than one year (£5.5m net of £0.5m provision for impairment), plus £12.1m Prepayments and accrued income due in less than one year.

14. Trade and other receivables *(continued)*

Trade receivables from continuing operations can be analysed as follows:

	2017 £m	2016 £m
Main charges trade receivables:		
Current	**0.6**	0.6
Past due but not impaired	**96.2**	76.1
Past due and impaired	**30.8**	28.5
Other trade receivables:		
Past due but not impaired	**4.8**	18.9
Past due and impaired	**1.1**	1.1
	133.5	125.2

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

	2017 £m	2016 £m
Main charges trade receivables:		
Less than one year overdue	**75.4**	57.2
Between one and two years overdue	**15.2**	13.8
Between two and three years overdue	**5.4**	4.6
Between three and four years overdue	**0.2**	0.5
Other trade receivables:		
Less than one year overdue	**4.8**	18.9
	101.0	95.0

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

	2017 £m	2016 £m
Main charges trade receivables:		
Less than one year overdue	**9.5**	10.6
Between one and two years overdue	**6.3**	6.2
Between two and three years overdue	**5.1**	4.6
Between three and four years overdue	**5.1**	3.8
More than four years overdue	**4.8**	3.3
Other trade receivables:		
Less than one year overdue	**1.1**	1.1
	31.9	29.6

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

	2017 £m	2016 £m
Provision brought forward	**29.6**	28.6
Charge in the year	**29.3**	29.1
Cash receipts	**(9.5)**	(10.3)
Amounts written off	**(16.9)**	(17.8)
Transfer to Assets held for sale (note 16)	**(0.6)**	-
Provision carried forward	**31.9**	29.6

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 short term deposits

	2017 £m	2016 £m
Cash and cash equivalents	**231.6**	60.1
Short term deposits	**44.5**	17.5
	276.1	77.6

At 31 March 2017, the Group had available £814.8m (2016: £814.0m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2017 £m	2016 £m
Current borrowings:		
Bank borrowings	**70.6**	68.5
Bank borrowings under Kelda Finance facility	**65.0**	63.5
Finance lease liabilities	**11.0**	37.2
Other borrowings	**25.0**	-
	171.6	169.2

	2017 £m	2016 £m
Non-current borrowings:		
Bank borrowings	**427.7**	404.9
Fixed rate guaranteed bonds due in less than 5 years	**534.2**	533.6
Fixed rate guaranteed bonds due in more than 5 years	**2,229.0**	1,946.0
Index linked guaranteed bonds due in more than 5 years	**1,146.0**	1,114.3
RPI uplift on index linked swaps	**123.5**	154.7
Fixed rate US Dollar bonds due in less than 5 years	**220.4**	28.2
Fixed rate US Dollar bonds due in more than 5 years	**145.0**	303.2
Fixed rate AUS Dollar bonds due in more than 5 years	**33.1**	29.5
Bonds issued by Kelda Eurobond Co Limited	**1,235.3**	1,146.2
Finance lease liabilities	**112.8**	162.6
	6,207.0	5,823.2

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

6% guaranteed bonds 2017 £259.7m (2016: £259.4m)
These bonds are repayable in one sum on 19 August 2017. The interest is charged at 6%.

6% guaranteed bonds 2019 £274.5m (2016: £274.2m)
These bonds are repayable in one sum on 21 August 2019. Interest is charged at 6%.

15. Financing *(continued)*

(ii) Borrowings *(continued)*

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

3.75% guaranteed bonds 2046 £190.7m (2016: £189.1m)
These bonds are repayable in one some on 22 March 2046. The interest is charged at 3.75%

6.5876% guaranteed bonds 2023 (Exchange bonds) £206.4m (2016: £200.7m)
These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

5.375% guaranteed bonds 2023 (Stranded bonds) £4.9m (2016: £4.7m)
These bonds are repayable in one instalment on 21 February 2023. Interest is charged at 5.375%.

5.5% guaranteed bonds 2027 (Stranded bonds) £6.5m (2016: £6.5m)
These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

6.454% guaranteed bonds 2027 (Exchange bonds) £130.7m (2016: £126.7m)
These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

6.6011% guaranteed bonds 2031 (Exchange bonds) £254.5m (2016: £261.7m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.6011%.

6.625% guaranteed bonds 2031 (Stranded bonds) £0.8m (2016: £0.7m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

5.5% guaranteed bonds 2037 £184.7m (2016: £184.7m)
These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

6.375% guaranteed bonds 2039 £304.3m (2016: £304.4m)
These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

5.75% guaranteed bonds 2020 £198.3m (2016: £197.7m)
These bonds were taken out on 6 February 2013 and are repayable in one sum on 17 February 2020. The interest is charged at 5.75%.

3.625% guaranteed bonds 2029 £288.7m (2016: £262.9m)
These bonds were issued on 1 August 2012 are repayable in one instalment on 1 August 2029. The interest is charged at 3.625%.

4.965% Class B guaranteed bonds 2033 £105.2m (2016: £104.1m)
These bonds were issued in May 2013 and are repayable in one instalment on 12 December 2033. The interest is charged at 4.965%.

3.54% guaranteed bonds 2029 £104.3m (2016: £102.1m)
These bonds were issued on 30 October 2014 and are repayable in one instalment on 30 October 2029. The interest is charged at 3.54%.

2.03% guaranteed bonds 2028 £59.8m (2016: £nil)
These bonds were issued on 22 September 2016 and are repayable in one instalment on 22 September 2028. The interest is charged at 2.03%.

2.14% guaranteed bonds 2031 £49.8m (2016: £nil)
These bonds were issued on 22 September 2016 and are repayable in one instalment on 22 September 2031. The interest is charged at 2.14%.

2.21% guaranteed bonds 2033 £49.8m (2016: £nil)
These bonds were issued on 22 September 2016 and are repayable in one instalment on 22 September 2033. The interest is charged at 2.21%.

2.30% guaranteed bonds 2036 £39.8m (2016: £nil)
These bonds were issued on 22 September 2016 and are repayable in one instalment on 22 September 2036. The interest is charged at 2.30%.

15. Financing *(continued)*

(ii) Borrowings *(continued)*

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

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

3.3066% index linked guaranteed bonds 2033 (Exchange bonds) £168.6m (2016: £170.2m)
These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.718% index linked guaranteed bonds 2039 £335.6m (2016: £328.5m)
These bonds are repayable in one instalment on 30 December 2039. The interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.16% index linked guaranteed bonds 2041 £55.4m (2016: £54.1m)
These bonds are repayable in one instalment on 30 December 2041. The interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.8225% index linked guaranteed bonds 2050 £73.0m (2016: £70.7m)
These bonds are repayable in one instalment on 1 February 2050. The interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.462% index linked guaranteed bonds 2051 £127.9m (2016: £122.8m)
These bonds are repayable in one instalment on 1 August 2051. The interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.758% index linked guaranteed bonds 2054 £93.3m (2016: £90.2m)
These bonds are repayable in one instalment on 1 February 2054. The interest is charged at 1.758% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.46% index linked guaranteed bonds 2056 £129.8m (2016: £124.9m)
These bonds are repayable in one instalment on 1 August 2056. The interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.709% index linked guaranteed bonds 2058 £107.3m (2016: £103.6m)
These bonds are repayable in one instalment on 1 February 2058. The interest is charged at 1.709% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.803% index linked guaranteed bonds 2042 £55.1m (2016: £53.9m)
These bonds were issued on 22 May 2012 are repayable in one instalment on 22 May 2042. The interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

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

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 £35.4m (1 - 2 years), £84.7m (2 - 5 years) and £80.1m (more than 5 years);
- Facilities with Macquaries 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 £27.5m (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 3.46% (2016: 3.670%).

Bonds issued by Kelda Eurobond Co Limited £1,235.3m (2016: £1,146.2m)

These bonds are repayable 2020. The interest rates are based on a 7.0% margin plus LIBOR.

(iii) Finance leases

	Minimum lease payments 2017 £m	Minimum lease payments 2016 £m
Amounts payable under finance leases:		
No later than 1 year	**65.7**	74.7
Later than 1 year and no later than 5 years	**42.3**	89.8
Later than 5 years	**86.2**	93.4
	194.2	257.9
Less: future finance charges on finance lease liabilities	**(70.4)**	(58.0)
Present value of lease obligations	**123.8**	199.9
Amount due for settlement within 12 months	**11.0**	37.3
Amount due for settlement after 12 months	**112.8**	162.6
	123.8	199.9

The weighted average lease term is 16.8 years (2016: 9.0 years). For the year ended 31 March 2017 the average effective borrowing rate was 1.8% (2016: 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

Disposal Group held for sale

In November 2016 management committed to a plan to sell 10 entities that make up the majority of the Kelda Water Services Group which is in the UK Water Services operating segment. Efforts to sell the entities are underway and management expect to complete the sales within 12 months.

Assets and liabilities of the disposal group

At 31 March 2017 the disposal group is stated at its book value at the date it met the recognition of a disposal group held for sale. Management has assessed the fair value of the disposal group using expected selling price based on actual bids received. The fair value is 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:

	£m
Intangible assets	**77.5**
Financial assets	**147.2**
Trade and other receivables	**17.1**
Inventories	**1.0**
Assets held for sale	**242.8**

	£m
Trade and other payables	**(35.5)**
Borrowings	**(136.5)**
Financial liabilities	**(28.7)**
Deferred income tax liabilities	**(7.7)**
Liabilities held for sale	**(208.4)**

17. Trade and other payables

	2017	2016
	£m	£m
Amounts falling due within one year:		
Trade payables	**97.4**	56.5
Capital payables	**79.8**	62.0
Social security and other taxes	**2.0**	2.8
Receipts in advance	**58.8**	57.4
Interest payable	**95.5**	110.8
Other payables	**1.5**	46.0
	335.0	335.5

	2017	2016
Amounts falling due after more than one year:		
Interest payable	**1.1**	13.9
Other payables	**3.5**	15.5
	4.6	29.4

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 £35.5m (£20.1m due within one year, £15.4m due after more than one year) have been transferred to Assets held for sale (note 16).

For the year ended 31 March 2016, £356.2m included within deferred income: amounts falling due within one year has been reclassified to deferred grants and contributions on depreciated assets under non-current liabilities on the consolidated statement of financial position. There is no impact on the consolidated statement of profit or loss.

18. Deferred grants and contributions on depreciated assets

Amounts falling due after more than one year:

	2017	2016
	£m	£m
Contributions on depreciated assets	**422.2**	402.5

19. Deferred income tax liabilities

	Property, plant and equipment	Provisions	Losses	Financial instruments	Pension obligations	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2015	904.7	-	(2.1)	(354.1)	(17.1)	531.4
Transfer	(0.3)	-	-	0.2	0.1	-
(Credit)/charge to income statement	(109.1)	3.4	0.1	56.8	1.8	(47.0)
(Credit)/charge to equity	(5.0)	-	-	0.8	26.1	21.9
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 31 March 2017	**775.4**	**-**	**-**	**(353.4)**	**(0.7)**	**421.3**

The Group has unrecognised capital losses of £3.9m (2016: £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 2017 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 2017.

An accrual for unfunded benefits of £9.2m has been included in the Group's financial statements at 31 March 2017 (2016: £8.6m).

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: KGPP has 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.

	2017	2016
	%	%
Inflation (RPI)	**3.10**	2.85
Inflation (CPI)	**2.10**	1.85
Rate of increase in salaries	**3.10**	3.85
Discount rate for scheme liabilities	**2.50**	3.55
Life expectancy for a male pensioner aged 60 (in years)	**26.3**	26.5
Projected life expectancy at age 60 for male aged 40 (in years)	**27.9**	28.4

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.

	2017 £m	2016 £m
Fair value of scheme assets		
Equities	**238.3**	197.1
Bonds	**256.7**	211.0
Property	**78.4**	75.7
Other	**908.7**	786.9
Total fair value of scheme assets	**1,482.1**	1,270.7
Present value of scheme liabilities	**(1,490.8)**	(1,212.6)
Post employment benefit (deficit)/surplus	**(8.7)**	58.1

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

	2017 £m	2016 £m
Analysis of amount charged to operating costs:		
Current service cost	**11.9**	16.0
Past service cost	**-**	1.1
Net interest (credit) / cost on pension scheme	**(2.5)**	2.4
Administrative expenses and taxes	**2.6**	1.9
Amounts charged to the income statement	**12.0**	21.4
Analysis of amounts recognised in Group statement of comprehensive income:		
Return on plan assets (excluding interest income)	**(195.7)**	64.5
Effect of changes in demographic assumptions	**(23.7)**	(45.1)
Effect of experience adjustments	**-**	(75.1)
Effect of changes in financial assumptions	**299.5**	(78.5)
Actuarial loss/(gain) recognised in the Group statement of comprehensive income	**80.1**	(134.2)
Total defined benefit cost/(income) recognised in the income statement and statement of comprehensive income	**92.1**	(112.8)

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 £24.9m for the Group (2016: £25.3m).

20. Pensions _(continued)_

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

	2017	2016
	£m	£m
Movements in the defined benefit obligation		
At 1 April	**(1,212.6)**	(1,395.9)
Current service cost	**(11.9)**	(16.0)
Interest expense	**(42.1)**	(45.3)
Remeasurements:		
Actuarial gains - demographic assumptions	**23.7**	45.1
Actuarial (losses)/gains - financial assumptions	**(299.5)**	78.5
Actuarial gains - experience adjustments	**-**	75.1
Benefits paid	**51.7**	47.1
Past service cost	**-**	(1.1)
Plan participants' contributions	**(0.1)**	(0.1)
At 31 March	**(1,490.8)**	(1,212.6)
The total defined benefit obligation comprises:		
Amounts owing to active members	**(423.8)**	(323.9)
Amounts owing to deferred members	**(278.7)**	(221.2)
Amounts owing to retired members	**(788.3)**	(667.5)
Total defined benefit obligation at 31 March	**(1,490.8)**	(1,212.6)

	2017	2016
	£m	£m
Changes in the fair value of scheme assets:		
At 1 April	**1,270.7**	1,308.4
Return on plan assets (excluding interest income)	**195.7**	(64.5)
Interest income	**44.6**	42.9
Employer contributions	**25.3**	32.8
Plan participants' contributions	**0.1**	0.1
Benefits paid	**(51.7)**	(47.1)
Administrative expenses paid from plan assets	**(2.6)**	(1.9)
At 31 March	**1,482.1**	1,270.7

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 2017 £m	Decrease 0.25% discount rate £m	Increase 0.25% discount rate £m	Decrease 0.25% inflation rate £m	Increase 0.25% inflation rate £m	Mortality minus one year age rating £m
Fair value of scheme assets	1,482.1	1,482.1	1,482.1	1,482.1	1,482.1	1,482.1
Present value of defined benefit obligation	(1,490.8)	(1,560.3)	(1,425.9)	(1,432.6)	(1,553.0)	(1,543.4)
(Deficit) / Surplus in the scheme	(8.7)	(78.2)	56.2	49.5	(70.9)	(61.3)

Actuarial assumptions used in sensitivity analysis:

	Base 2017 %	Decrease 0.25% discount rate %	Increase 0.25% discount rate %	Decrease 0.25% inflation rate %	Increase 0.25% inflation rate %	Mortality minus one year age rating %
Discount rate	2.50	2.25	2.75	2.50	2.50	2.50
Rate of RPI assumption	3.10	3.10	3.10	2.85	3.35	3.10
Rate of CPI assumption	2.10	2.10	2.10	1.85	2.35	2.10
Rate of salary increase	3.10	3.10	3.10	2.85	3.35	3.10

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:

	2017 Years	2016 Years
Duration of the defined benefit obligation	18	17

The following table provides information on the distribution and timing of benefit payments:

	£m
Within 12 months	42.9
Between 1 and 2 years	44.0
Between 2 and 3 years	45.0
Between 3 and 4 years	46.1
Between 4 and 5 years	47.3
Between 5 and 10 years	254.3

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 2017 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 2017 was £3.0m (2016: £3.1m).

21. Ordinary shares

	Ordinary shares of 1p		Ordinary shares of £1	
	Number	1p shares £	Number	£1 shares £
Issued and fully paid				
As at 31 March 2016 and 31 March 2017	**1**	**0.01**	**750,000,000**	**750,000,000**

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:

	2017 Less than one year £m	**2017 More than one year £m**	**2017 Total £m**	2016 Less than one year £m	2016 More than one year £m	2016 Total £m
Derivative financial assets:						
Fixed to floating interest rate swaps	**-**	**61.5**	**61.5**	-	48.5	48.5
Combined cross currency interest rate swaps	**-**	**79.8**	**79.8**	-	42.3	42.3
	-	**141.3**	**141.3**	-	90.8	90.8
Financial liabilities:						
Finance lease interest swaps	**-**	**(25.2)**	**(25.2)**	-	(24.9)	(24.9)
Index linked swaps	**-**	**(2,033.0)**	**(2,033.0)**	-	(1,579.6)	(1,579.6)
Combined cross currency interest rate swaps	**-**	**(1.4)**	**(1.4)**	-	(5.4)	(5.4)
Derivative financial instrument on energy contracts	**-**	**(6.4)**	**(6.4)**	-	(10.0)	(10.0)
Fixed to floating interest rate swaps	**-**	**(0.8)**	**(0.8)**	-	(31.5)	(31.5)
	-	**(2,066.8)**	**(2,066.8)**	-	(1,651.4)	(1,651.4)
Net debt:						
Cash and short term deposits	**276.1**	**-**	**276.1**	77.6	-	77.6
Loans receivable from Group companies	**-**	**-**	**-**	-	-	-
Borrowings	**(171.6)**	**(6,207.0)**	**(6,378.6)**	(169.2)	(5,823.2)	(5,992.4)
	104.5	**(6,207.0)**	**(6,102.5)**	(91.6)	(5,823.2)	(5,914.8)

Bank loans totalling £136.5m (£3.6m due in less than one year, £132.9m due in more than one year) have 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 £2,156.5m (2016: £1,734.3m) on index linked swaps. £2,033.0m (2016: £1,579.6m) is shown as index linked swaps as in the table above; the remaining £123.5m (2016: £154.7m) 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 2017 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 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							
Index 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
Index 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

22. Financial instruments *(continued)*

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

Year ended 31 March 2016

	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	39.9	38.8	27.9	28.0	31.3	39.4	205.3
Guaranteed bonds	129.9	365.9	114.9	578.6	86.9	2,437.6	3,713.8
US Dollar bonds	11.3	11.3	39.4	10.4	10.4	273.9	356.7
Other interest rate swaps	4.4	4.0	3.8	3.9	3.9	32.0	52.0
Finance lease swaps	2.3	2.2	2.3	2.2	2.2	22.1	33.3
	187.8	422.2	188.3	623.1	134.7	2,805.0	4,361.1
Floating rate							
Index linked guaranteed bonds	24.7	24.7	24.7	24.7	24.7	1,729.0	1,852.5
US Dollar bonds	1.2	1.2	1.2	1.2	1.2	77.7	83.7
Guaranteed bonds	9.6	9.6	9.6	9.6	9.6	302.6	350.6
Bank loans	12.9	76.2	25.9	26.5	25.8	184.5	351.8
Combined cross currency interest rate swaps	7.6	7.9	8.2	7.7	7.7	19.3	58.4
Eurobonds issued by Kelda Eurobond Co Limited	88.8	1,235.0	-	-	-	-	1,323.8
Index linked swaps	7.8	9.7	10.3	10.6	10.6	114.6	163.6
Fair value interest rate swaps	40.3	125.1	65.8	40.3	87.8	1,824.4	2,183.7
Finance leases	74.7	51.9	15.1	17.0	5.7	93.4	257.8
	267.6	1,541.3	160.8	137.6	173.1	4,345.5	6,625.9
Non-interest bearing financial liabilities							
Trade payables	56.5	-	-	-	-	-	56.5
Other payables	168.2	15.5	-	-	-	-	183.7
	224.7	15.5	-	-	-	-	240.2

(b) Financial risks

Capital risk management

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

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

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

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

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 (including discontinued operations) and company is represented by the carrying amount of each financial asset in the statement of financial position:

		Group		Company
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Cash and short term deposits (see note 15)	**276.1**	77.6	**-**	-
Trade and other receivables (see note 14)	**`229.6**	208.2	**0.3**	0.2
Financial assets (see note 16)	**147.2**	152.3	**-**	-
Investments	**0.7**	1.2	**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 2017 the Group had £1,090.9m of available liquidity (2016: £891.6m) which comprised £276.1m in available cash and short term deposits (2016: £77.6m) and £814.8m of undrawn committed borrowing facilities (2016: £814.0m).

The maturity profile on page 121 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:

	2017	2016
	£m	£m
Impact on profit before tax		
1% increase in RPI leading to a decrease in profit	**30.6**	(31.1)
1% decrease in RPI leading to an increase in profit	**(30.6)**	31.1
1% increase in LIBOR leading to an increase in profit	**9.8**	(10.5)
1% decrease in LIBOR leading to a decrease in profit	**(5.6)**	4.5

(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
	2017	2016				
1) Interest rate swaps, combined cross-currency swaps, fixed rate bonds, indexed linked swaps	Assets - £141.3m; Liabilities (designated for hedging) - £610.6m ; and Liabilities (not designated for hedging) - £705.0m	Assets - £90.8m; Liabilities (designated for hedging) - £549.6m; and Liabilities (not designated for hedging) - £529.0m	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	Liabilities (not designated for hedging) - £1,483.1m	Liabilities (not designated for hedging) - £1,289.6m	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.	Unobservable inputs contribute on average to 34% of the fair value of level 3 instruments, equalling a total of £504.3m of the fair value included in the financial statements.

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 2017.

	2017 Level 1 £m	**2017 Level 2 £m**	**2017 Level 3 £m**	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m
Primary financial instruments financing the Group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	**(276.1)**	**-**	**-**	(77.6)	-	-
Financial assets from concession arrangements	**(145.2)**	**-**	**-**	(152.3)	-	-
Loans to associates/joint ventures	**(0.5)**	**-**	**-**	0.3	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	**-**	**(61.5)**	**-**	-	(48.5)	-
Cross-currency interest rate swaps	**-**	**(79.8)**	**-**	-	(42.3)	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	**-**	**25.2**	**-**	-	24.9	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	**-**	**1.4**	**-**	-	5.4	-
Fixed rate US Dollar bonds	**-**	**365.4**	**-**	-	323.9	-
Fixed rate AU Dollar bonds	**-**	**33.1**	**-**	-	33.7	-
Fixed rate Sterling bonds	**288.6**	**210.7**	**-**	247.2	179.1	-
Index linked swaps	**-**	**673.4**	**1,483.1**	-	494.2	1,289.6
Energy derivative	**-**	**6.4**	**-**	-	10.0	-
Designated as Fair Value Through Other Comprehensive Income						
Other interest rate swaps	-	**29.0**	**-**	-	31.5	-
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	**2,638.1**	**268.3**	**-**	2,465.0	18.4	-
Index linked sterling bonds	**450.2**	**1,192.3**	**-**	383.8	974.8	-

Reconciliation of Level 3 fair value measurements of financial liabilities:

	RPI swaps £m	**Total £m**
Balance at 1 April 2016	1,240.1	1,240.1
Total gains or losses:		
- in profit or loss	237.0	237.0
Transfers into Level 3	6.0	6.0
Balance at 31 March 2017	**1,483.1**	**1,483.1**

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 2017:

	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	33.8	(33.8)
10 basis point change to credit curve assumption	35.2	(35.2)

Inflation linked swaps

The company holds a number of index linked swaps, with a notional value of £1,289.0m. There are three cash-flows associated with the 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.

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 index linked swaps. This is accrued in the consolidated statement of profit or loss and recognised within long-term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short-term, these swaps gave rise to a fair value liability of £2,156.5m (2016: £1,734.3m) at the year end date. Of this £123.5m (2016: £154.7m) has been recognised within long-term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2017. The remaining £2,033.0m is recognised within other financial liabilities. The RPI bullet accrued to 31 March 2017 was £200.6m (2016: £241.5m) which has been reduced by £77.1m (2016: £86.8m) when discounted to present values.

The valuation model used by the Group to determine the fair value of the inflation linked swap portfolio as at 31 March 2017 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of the Group's index linked swap portfolio.

22. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

Interest rate swaps

Income from the movement in fair value of combined cross currency interest rate swaps of £41.5m was recognised in the income statement (2016: £14.6m), offset by the change in fair value of the associated bonds of £37.4m (2016: £18.3m). Of the change in fair value of associated bonds, £33.8m (2016: £17.3m) relates to Fixed US Dollar bonds. The remaining £3.6m (2016: £1.0m) change in fair value relates to the movement between the fair value of AUS Dollar bonds.

Movements in the fair value of fixed to floating interest rate swaps of £13.0m was recognised in the income statement (2016: £9.4m), offset by the change in fair value of the associated bonds of £30.0m (2016: £1.4m). £25.5m (2016: £3.4m) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £291.3m (2016: £265.8m) at 31 March 2017. £2.4m (2016: £2.6m) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £107.1m (2016: £104.7m) at 31 March 2017. The remaining £2.0m change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £104.5m at 31 March 2017. These bonds were valued at £89.7m (net of issue costs) when issued. All interest rate swaps have maturity dates in excess of five years.

Movements in the fair value of fixed rate swaps in respect of finance leases of a charge of £0.3m were recognised in the income statement as an exceptional item (2016: £0.7m charge).

The fair value of the floating interest rate to fixed interest rate swap instruments was a loss of £2.9m (2016: £31.5m 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 policy that requires at least 85% of Yorkshire Water Services Limited and Kelda Finance No1 Limited net debt to be fixed or index linked. At the financial year end the proportions were 109% and 107% respectively (2016: 105% and 103%).

Hedging of floating rate interest due on borrowings

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

In order to manage its exposure to movements in LIBOR, the Group has entered into a number of floating rate to index linked swaps and also a floating interest rate to fixed interest rate swap.

The nominal value of index linked swaps total £1,289.0m 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.

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

The hedging instrument no longer meets the criteria to classify for hedge accounting as the cash flow hedge was assessed to be ineffective.

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 £79.8m (2016: £42.3m) 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 gain of £37.4m (2016: £18.3m) 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 £1.4m (2016: £5.4m) for 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 gain of £4.1m (2016: £1.1m 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 £250.0m 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 £30.0m (2016: £22.8m) for 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 gain of £7.2m (2016: £3.4m 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 £18.0m (2016: £14.7m) for 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 gain of £3.3m (2016: £2.6m loss) 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 £13.5m (2016: £10.9m) for 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 gain of £2.6m (2016: £2.1m loss) 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.

22. Financial instruments *(continued)*

(d) Hedges *(continued)*

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

There are no significant post balance sheet events.

24. Additional cash flow information

Analysis of movement in net debt	At 31 March 2015 £m	Non cash movements £m	Cash movements £m	At 31 March 2016 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2017 £m**
Cash and cash equivalents	82.0	-	(4.4)	77.6	**-**	**198.5**	**276.1**
Debt due within one year	(112.5)	-	(19.5)	(132.0)	**-**	**(28.6)**	**(160.6)**
Finance leases due within one year	(34.1)	-	(3.1)	(37.2)	**-**	**26.2**	**(11.0)**
	(146.6)	-	(22.6)	(169.2)	**-**	**(2.4)**	**(171.6)**
Debt due after one year	(5,548.3)	(146.2)	33.9	(5,660.6)	**(171.6)**	**(262.0)**	**(6,094.2)**
Finance leases due after one year	(199.9)	-	37.3	(162.6)	**-**	**49.8**	**(112.8)**
	(5,748.2)	(146.2)	71.2	(5,823.2)	**(171.6)**	**(212.2)**	**(6,207.0)**
Net debt relating to continuing activities	(5,812.8)	(146.2)	44.2	(5,914.8)	**(171.6)**	**(16.1)**	**(6,102.5)**
Total net debt	(5,812.8)	(146.2)	44.2	(5,914.8)	**(171.6)**	**(16.1)**	**(6,102.5)**

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:

	2017 £m	2016 £m
Total loss for the year	**(431.0)**	(319.9)
Tax credit - continuing	**(114.7)**	(50.3)
Tax charge - discontinued	**2.6**	0.9
Loss before taxation	**(543.1)**	(369.3)
Share of associates' and joint ventures' (loss)/profit after tax	**-**	0.3
Finance income	**(22.2)**	(25.3)
Finance costs	**427.3**	389.9
Exceptional finance costs (non-cash)	**466.5**	(132.7)
Movement of fair value of derivative financial instrument (energy contracts)	**(3.6)**	10.0
Depreciation and amortisation of capital grants	**287.6**	283.9
Amortisation of capitalised bid costs and software	**9.8**	4.9
Profit on disposal of joint venture	**-**	(4.2)
Profit on disposal of property, plant and equipment	**(0.6)**	(2.8)
Impairment of goodwill	**-**	400.0
(Reversal of) / impairment of property, plant and equipment	**(3.4)**	35.0
Decrease in inventories	**(0.8)**	(0.7)
Decrease in trade and other receivables	**(22.2)**	(8.9)
Decrease in trade and other payables	**15.7**	10.2
Pension contributions in excess of operating costs	**(10.7)**	(13.8)
Movements in provisions	**-**	0.3
Other movements	**-**	0.5
Cashflow used in operating activities	**600.3**	577.3

25. Commitments

	2017 £m	2016 £m
Contracts placed at 31 March	**510.3**	347.6

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:

	2017 Land and buildings £m	**2017 Other £m**	2016 Land and buildings £m	2016 Other £m
No later than 1 year	**0.2**	**1.6**	1.7	1.4
Later than 1 year and no later than 5 years	**5.1**	**2.9**	5.6	1.1
Later than 5 years	**4.6**	**-**	0.9	-
	9.9	**4.5**	8.2	2.5

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 2017 £m	Loans (from)/to related parties 2016 £m
Joint ventures		
Micklefield Properties Limited	**-**	0.2
Whitehall Landing Limited	**-**	(0.3)
Whinmoor Limited	**0.6**	0.6
Templegate Developments Limited	**(0.5)**	(0.5)
Keyland Gregory Limited	**-**	0.3
Tingley Limited	**0.1**	0.1
Sir Robert Ogden Evans Property Partnership Limited	**0.6**	-
	0.8	0.4

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £nil (2016: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2017 the Group made provisions totalling £0.6m for doubtful debts relating to amounts owed by related parties (2016: £0.7m). During the year dividends received from related parties totalled £0.3m (2016: £nil).

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

Compensation of key management personnel (including directors).

	2017 £m	2016 £m
Short term benefits	**3.2**	2.8
Post-employment benefits	**-**	0.1
	3.2	2.9

27. Subsidiary companies

The company, as an individual entity, has the following investments in subsidiaries 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 (Alpha) Limited[6]	Northern Ireland	UK	Ordinary	100%
Dalriada Holdings Limited[6]	Northern Ireland	UK	Ordinary	100%
Dalriada Water Limited[6]	Northern Ireland	UK	Ordinary	100%
Kelda Water Services (Grampian) Limited[4]	Scotland	UK	Ordinary	100%
Kelda Water Services (Defence) Limited[5]	England & Wales	UK	Ordinary	100%
Kelda Water Services (Estates) Limited[5]	England & Wales	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%
Alauna Renewable Energy Limited	England & Wales	UK	Ordinary	100%
Kelda Organic Energy Limited	England & Wales	UK	Ordinary	100%
Kelda Organic Energy (Cardiff) Limited	England & Wales	UK	Ordinary	100%
Kelda Organic Energy (Edinburgh) Limited	England & Wales	UK	Ordinary	100%
Kelda Organic Energy (Leeds) Limited	England & Wales	UK	Ordinary	100%
Kelda Organic Energy (Yorkshire) 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	Scotland	UK	Ordinary	100%
Aberdeen Environmental Services Limited[4]	Scotland	UK	Ordinary	100%
Other activities				
Keyland Developments Limited	England & Wales	UK	Ordinary	100%
Keyland Investment Properties Limited[2]	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[8]	Isle of Man	UK	Ordinary	100%
Rockford Debt Collections Limited[2]	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%
Springswood Limited[7]	England & Wales	UK	Ordinary	100%
The Courtyard (Midpoint) Management Company Limited	England & Wales	UK	Ordinary	100%

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
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%

27. Subsidiary companies *(continued)*

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Holding and finance companies *(continued)*				
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] 2nd Floor, One Capitol Court, Capitol Park, Dodworth, Barnsley S75 3TZ
[6] Dunore Point Water Treatment works, 9 Dunmore Road, Aldergrove, Crumlin, County Antrim BT29 4DZ
[7] Millshaw Ring Road, Beeston, Leeds, West Yorkshire LS11 8EG
[8] Atlantic House, 4-8 Circular Road, Douglas, Isle of Man

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 Group 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.

Should the Group be found liable as a result of these investigations (which has not been indicated) it is possible it will be subject to fines, the size and timing of which are unknown due to the early stages of the investigation.

The Group has received a letter of claim on behalf of personal search companies (PSC) relating to a claim for historical fees that they have paid to the Group for water and drainages reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to the Group as the information should have provided for no fee.

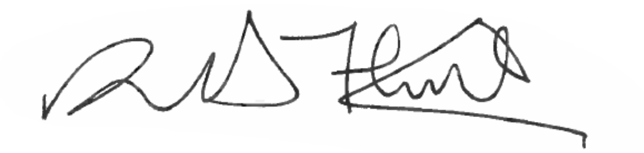
At this early stage it is not known if the Group would be liable for these claims, the total value to which they could amount, or the timing of any cash outflow.

Kelda Eurobond Co Limited
Company balance sheet
as at 31 March 2017

	Notes	**2017 £m**	2016 £m
Fixed assets			
Investments	*2*	**3,053.6**	3,053.6
		3,053.6	3,053.6
Current assets			
Debtors (including £275.0m (2016: £225.8m) falling due after more than one year)	*3*	**275.3**	226.0
Creditors: amounts falling due within one year	*4*	**(1,341.1)**	(1,343.2)
Net current liabilities		**(1,065.8)**	(1,117.2)
Total assets less current liabilities		**1,987.8**	1,936.4
Creditors: amounts falling due after more than one year	*5*	**(1,235.3)**	(1,146.2)
Net assets		**752.5**	790.2
Capital and reserves			
Called up share capital	*6*	**750.0**	750.0
Profit and loss account		**2.5**	40.2
Total shareholders' funds		**752.5**	790.2

The loss incurred by the parent company for the year ended 31 March 2017 was £29.5m (2016: loss of £113.3m). 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 135 to 140 were approved by a duly authorised committee of the Board of directors on 13 July 2017 and signed on its behalf by:



Richard Flint
Chief Executive
13 July 2017
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 2017

	Ordinary shares £m	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2015	750.0	164.1	914.1
Loss for the year	-	(113.3)	(113.3)
Dividends paid	-	(10.6)	(10.6)
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 31 March 2017	**750.0**	**2.5**	**752.5**

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, 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. Although the company has net current liabilities of £1,340.8m, the directors have obtained necessary support from a fellow subsidiary regarding the payment profile relating to the intercompany creditor and therefore consider the going concern basis appropriate.

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 £m	Total investments in Group undertakings £m
Cost		
At 1 April 2016 and 31 March 2017	**3,053.6**	**3,053.6**

A list of the subsidiaries of the Company can be found on pages 136 and 137. The directors believe that the carrying value of the investments is supported by their net assets.

3. Debtors

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed by group undertakings	**0.3**	0.2
Amounts falling due after more than one year:		-
Amounts owed by parent undertaking	**121.8**	73.8
Amounts owed by group undertakings	**153.2**	152.0
	275.0	225.8

Amounts falling due within one year are unsecured, are 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

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed to group undertakings	**1,331.1**	1,333.7
Other creditors	**10.0**	9.5
	1,341.1	1,343.2

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 £1,009m (2016: £1,257m) which bears interest at 4.25% above LIBOR.

5. Creditors: amounts falling due after more than one year

	2017 £m	2016 £m
Amounts falling due after more than one year:		
2020 Bonds	**1,235.3**	1,146.2

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 2017 (2016: 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 auditors' remuneration are included within the financial statements of the group.

Fees of £5,000 payable to the Company's auditors for the audit of the Company financial statements were borne by Kelda Group Limited in the year ended 31 March 2017 (2016: £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, United Kingdom.

8. Dividends

Dividends of £8.2m, 1.09 pence per share, were paid during the year (2016: £10.6m, 1.41 pence per share).

Report on the Company financial statements

Our opinion

In our opinion, Kelda Eurobond Co Limited's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Company balance sheet as at 31 March 2017;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter 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 addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors’ remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 69, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors’ Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Kelda Eurobond Co Limited for the year ended 31 March 2017.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
13 July 2017