Registered Number: 99329

KELDA HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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Strategic Report

Our Business

Kelda Holdings 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 5.0 million people and 136,000 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.

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 contracts in 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.

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

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

Three Sixty Water Limited (Three Sixty) *Previously Kelda Retail Limited*

Three Sixty specialise in offering business customers innovative added value services and national tailored retail services.

Business strategy: Create a market leading, sustainable business with demonstrable value by 2018.

Business Strategy

The Group has a vision – 'taking responsibility for the water environment for good'.

The essence of the vision is doing what's right - for our customers, colleagues, partners, the environment and investors – both in the short and long term.

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

Our strategic objectives:
To deliver the plan the Group has developed six Strategic Business Objectives (SBOs). These SBOs shape everything the Group does. Our SBO's are:

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, Three Sixty and KeyLand have additional strategic objectives specific to their circumstances.

Business Performance

Yorkshire Water Services Limited (Yorkshire Water)

Yorkshire Water 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 of 'taking responsibility for the water environment for good'. Our SBOs shape everything we do and encompass all our material issues as a business; environmental, financial and social.

Yorkshire Water Business Strategy

Our vision is 'taking responsibility for the water environment for good'.

As a regulated water and wastewater company, we recognise in our vision the importance of our role as a provider of some of life's most essential services and as custodians of the natural environment and critical infrastructure. In addition, 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 water and waste water services and of our business.

Putting our customer priorities at the heart of our strategy
Central to our business strategy is the delivery of our customer priorities, defined in our seven customer outcomes and 26 performance commitments. These were shaped and agreed through our engagement with over 30,000 customers and our regulators.

We have committed to achieve set levels of service across a range of activities which customers and regulators confirm are a priority, for example further reducing pollution incidents and leakage. The regulatory regime in which we operate includes financial and reputational penalties or incentives if we under or over perform against these commitments.

Our Customer Outcomes:

Yorkshire Water Business Strategy (continued)

Working towards our six Strategic Business Objectives

Our strategy also goes beyond our Performance Commitments, responding to the imperative to ensure the long term affordability and effectiveness of the essential services we provide. To ensure the long term sustainability of our business and services, we manage a programme of activity that drives us towards our vision and six SBO's.

Our SBO Framework includes a suite of annual targets on activities that drive us towards medium-term milestones and long-term Outcomes. Our SBOs shape everything we do and encompass all our material issues as a business; environmental, financial and social.

Continually developing our strategy

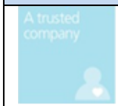
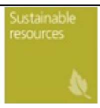
We continue to advance and evolve our strategy as we adjust to internal and external developments. In 2015/16 we updated our analysis of the strategic forces shaping our business and services over the long term. By combining this latest evidence with extensive customer engagement and comprehensive risk assessment we will define our next Price Review business plan for the period beyond 2020, our next 25 year Water Resources Management Plan and the future shape of our business.

Communicating progress and plans towards our strategy through this report

This strategic report summarises our progress in working towards our Performance Commitments and our broader SBO activity. We focus on the achievements made in 2015/16, the future challenges we face, and the plans we are putting in place to mitigate strategic risks.

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 Strategic Business Objective	Our performance in 2015/16
 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 9-12_**	Continued focus on enhancing customer service, with high levels of satisfaction on billing and water services in the SIM, and scoring well above average in the utility sector in the UK Customer Service Index (UKCSI). Focused investment in wastewater related services where we see lower levels of satisfaction, for example responding to odour problems at Saltend works by investing £16m in improvements and engaging with local customers. Further enhancements to ensure we are acting as a leading responsible business, confirmed by external benchmarking by Business in the Community (BITC).
 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. **_Find more on pages 12-15_**	A fatal accident and an increase in injury rates accelerated our focus on our plans for continual improvement to the health safety and wellbeing of colleagues. Extensive engagement with our people and partners reaffirmed the imperative for safety first and informed our safety improvement plan. Continued investment in assets and services ensured customers received amongst the highest standards of safety and reliability. Water supplies were maintained throughout the Christmas floods despite inundation of more than 100 of our works and pumping stations. Further reinforced and developed our approach to multi-agency collaboration to maximise flood resilience.
 We maintain and improve the water environment from source to sea, and influence others to do the same. **_Find more on pages 16-18_**	Delivery of our programme to protect and enhance the region's water environment continued, for example: Leading bathing water performance with 18 of Yorkshire's 20 bathing beaches achieving Good or Excellent standard; Completing our river restoration trial at Cudworth Dyke, showing early signs of enhanced biodiversity; and collaborating to deliver more fish passes across the region. To further grow the value the business and society take from our land, we worked to develop innovative partnership approaches on recreation and farm tenancy.
 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 18-19_**	Implemented a range of activity to improve water efficiency and raise awareness of the true value of water. Our focus on managing leakage remained a priority, again out-performing our regulatory target. We continued to support customers to save water and provided water education opportunities. Engaged nationally to monitor and help shape planned changes to water resources management, including abstraction licensing and water markets.
 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 20-23_**	Continued focus on developing and supporting our people, for example taking more apprentices and graduates through our training programmes, introducing progression plans for all non-managerial roles, and ensuring we pay all our colleagues at least the Living Wage. Further developed our plans to create new value from under utilised resources, for example approving a new £70m investment in anaerobic digestion to generate more renewable energy from sewage sludge, and progressing a project to support green growth and demonstrate the circular economy in practice by using our wastewater and heat.
 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 23-27_**	Bills were the second lowest in the water industry, kept low with a reduction in average bills. Over 27,000 customers who were struggling to pay their bill were helped through our expanded range of financial support measures. We managed financial and non-financial risks and opportunities to ensure our efficiency and effectiveness over both the short and long term. We closely managed expenditure and gearing to ensure financial prudence and to enable a fair return for investors and shareholders.

Yorkshire Water Business Performance (continued)

Headline indicators (previous year in brackets)	**Our priorities in 2016/17**	**Challenges and uncertainties**
82.6 points out of 100 in SIM (82.0) **77** points out of 100 in UKCSI (77) **4.5** out of 5 stars in the BITC Corporate Responsibility Index (4.5)	Drive continual improvement in customer service and engagement, especially on the wastewater side of the business. Further our performance as a responsible business, for example by trialling and developing sustainable accounting practices.	• Enhancing service faster than others in the sector • Mitigating impact of extreme weather on customer experience • Balancing a wide range of stakeholders expectations of us
34 colleague injuries resulting in lost time (29) **99.95%** compliance with drinking water quality standards (99.95) **5** serious pollution incidents (4) **1,842** internal flooding incidents (1,947)	Reinforce our health, safety and wellbeing culture, and deliver continual improvement through our safety improvement plan. Maintain our high water and wastewater services standards, meeting our Performance Commitments. Collaborate to maintain and enhance the region's flood resilience.	• Managing extensive infrastructure to maintain service and ensure safety • Achieving stretching Performance Commitments • Delivering multi-agency approaches in practice to enhance flood resilience
99.32% Discharge permit compliance (99.32%) **18** out of 20 Yorkshire bathing waters achieving Good or Excellent standard (18) **11,466Ha** of land conserved and enhanced (11,350)	Conserve and enhance the environment by delivering our investment programme and working in partnership to maximise the benefits. Find new value from our land by increasing recreation and environmental benefits.	• Delivering our large investment programmes, including innovative approaches • Delivering multi-agency approaches in practice
285Ml/d water lost through leakage (288) **12:53** (mins:secs) average water supply interruption per property (9:36) **141.7l/hd/d** average water use by customers (N/A - new)	Ensure water is used wisely, by managing our leakage and operational use of water, and by supporting others to save. Prepare for the future by starting to develop our new 25 year Water Resources Management Plan, and our strategy for developing water markets.	• Supporting and encouraging others to use water wisely • Monitoring and informing nationally developing approaches to abstraction licencing and water trading • Managing extreme weather events and the changing climate
23 hired onto our apprentice and graduate schemes (9) **11.3%** electricity needs met through renewable self-generation (12.3%) **353KTCO$_2$e** operational carbon emissions (369)	Further develop and support our people, including a focus on diversity and inclusion. Focus on reducing energy, carbon and waste with further progress in our commitments to the Infrastructure Carbon Review and our innovation programme to demonstrate the circular economy in practice.	• Managing our extensive, global supply chains • Mitigating volatile and rising energy and chemical costs • Transforming our approaches to ensure they are fit for the future
22,735 people received financial support to help pay their bill (N/A - new) **£248.7m Yorkshire Water** operating profit (£395.6) **77.9%** gearing (78.3%)	Continued support for those that cannot pay their bill, and debt management for those that will not pay. Ongoing focus on financial efficiency and effective risk management to ensure stable finances and a fair return.	• Managing our portfolio of derivatives • Instability in global markets • Managing income and expenditure • Cost impacts of extreme weather events

Delivering leading customer service

SIM is the water industry regulatory measure of customer service. Ofwat introduced a new methodology for the SIM in April 2015, placing more emphasis on customer satisfaction. We achieved our Performance Commitment, achieving 82.6 out of 100 points. It is a business priority to continue improving our SIM score and relative performance, striving to be first in the SIM by 2020.

Customer satisfaction relating to billing and water services was strong in 2015/16, improved through the introduction of specialised teams and more ownership of customer issues. We ranked first in the water industry on billing services The training of colleagues and our focus on a culture of 'right first time' has supported a 9% reduction in escalated written complaints.

We saw lower levels of satisfaction in our wastewater related services, in part a consequence of the high levels of rainfall in the region over Christmas 2015. We are investing to improve waste services and saw increased SIM scores towards the end of 2015/16. For example, we are responding to odour problems at Saltend treatment works by investing £16m to date on site improvements and engaging with local customers.

We continued to score well in the all-sector comparison of customer service undertaken by the UK Customer Services Institute. In January 2016, we scored 77 out of 100, which was well above the utility sector average.

We met our target for a reduced number of Service Commitment failures, seeing a lower than average number of appointment failures and sewer flooding events. The independent perception survey conducted by the Consumer Council for Water found overall customer satisfaction to have increased on the previous year, to 95% for water services and 92% for wastewater services.

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. These are similar to the four Serviceability Key Performance Indicators (KPIs) under the previous regulatory reporting framework. 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 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.

We undertake long-term planning to prepare for challenges including population growth, climate change and decreasing availability of resources. In 2015 we updated our assessment of the latest evidence on the long term projections for the forces shaping our business and services. This information is now being used to inform our next Price Review business plan and 25 year Water Resources Management Plan (WRMP).

Engaging with customers and stakeholders
In 2015/16, we continued to communicate with our customers and stakeholders to inform our approach and plans, for example we:
- Launched our new 'This is Yorkshire Water' campaign, which has increased customer engagement by 163%;
- Worked with our Infrastructure North partners (Northern Gas Networks, Northern Powergrid and Northumbrian Water) to highlight the cumulative effect we have in stimulating growth in the region, and to examine how we could further support vulnerable customers;
- Engaged with a range of elected representatives and other stakeholders, for example by improving understanding of what we do for customers;
- Continued to work with our independent Customer Forum to help ensure that our customers have a fair say in our plans.

Working in partnership
We recognise collaboration as a strategic priority for us, in order to deliver greater benefits to society, unlock new cost savings, build more inclusive solutions, and enable landscape-scale improvements. While we have worked in partnership with others for many years, for example sharing resources with the Environment Agency to manage flooding, we are working to increase our breadth and depth of collaboration.

We have established a working group to identify and track potential partnership projects, and drive us towards our Working With Others Performance Commitment. We have delivered four schemes in partnership this year, with a diverse range of partner organisations including local authorities, Experience Community (a disability access and travel organisation), and the Canals and Rivers Trust. These projects have enhanced access to our reservoirs for off-road wheelchairs, helped tackle an invasive aquatic plant in local rivers, developed better flood risk models, and improved wildlife habitats.

Supporting our community
Through our community engagement programme we provide support to a wide variety of organisations and support our colleagues in a range of community activities. We provide this support in three key areas:
- Education - raising awareness of young people and local communities on the value of water and their role and ours in safeguarding this precious resource;
- Environment - playing a key role as one of Yorkshire's largest landowners in enhancing the natural and built environment;
- Empowerment - providing opportunities for colleagues to share skills with the local community through employee-supported volunteering.

Benchmarking our approach to being a responsible business
We externally assess our performance using the BITC Corporate Responsibility (CR) Index. We maintained our score of 4.5 out of 5 stars in 2015/16, placing us amongst the top eight performers nationally. Our maintained score reflects improved performance in practice as BITC raised standards in areas of the Index. We are working to further improve our performance and aspire to achieve 5 stars in 2016/17. We provide information about our Board CR Committee in the Corporate Governance Report within this document.

Managing colleague trust

We continually strive for a highly constructive relationship between the business and its colleagues. We have continued to implement our programme of improvements and are pleased that colleagues continue to feel the benefits. This is demonstrated through an improving trend in our internal feedback surveys, achieving 7 out of 10 across Kelda Group by the end of 2015/16. Through our ongoing improvement programme, we are working to maintain and further enhance our strong colleague-company relationships.

We discuss training, development and recruitment 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.

Championing diversity

We are committed to equality of opportunity for all. Our Diversity & Inclusion (D&I) Group has continued to meet regularly and drive our programme of improvement activity focused on three work streams: Gender, Ability and Ethnicity. In 2015/16, we have demonstrated tangible action by, for example:

- Providing an e-learning training package to all colleagues;
- Embedding D&I awareness within our corporate induction;
- Proactively advertising roles suitable for those with disabilities;
- Supporting a further 21 of our female colleagues through the "Pearls" leadership development programme;
- Targeting disadvantaged schools for places on our apprenticeship programme;
- Continuing our preparations to secure the National Equality Standard (NES) by 2020.

Below we provide a range of diversity statistics, relating to those directly employed by Yorkshire Water on the 31 March of each year shown.

Gender	Male			Female		
	2016	2015	2014	2016	2015	2014
Statutory directors	7 (77.8%)	7 (77.8%)	7 (63.6%)	2 (22.2%)	2 (22.2%)	4 (36.4%)
Senior managers	16 (72.7%)	16 (69.6%)	19 (76.0%)	6 (27.3%)	7 (30.4%)	6 (24.0%)
Total employees	1,862 (76.0%)	1,769 (77.8%)	1,790 (76.8%)	589 (24.0%)	506 (22.2%)	542 (23.2%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Statutory directors	9 (100.0%)	9 (100.0%)	11 (100.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	20 (90.9%)	22 (95.7%)	24 (96.0%)	1 (4.5%)	1 (4.3%)	1 (4.0%)	1 (4.5%)	0 (0.0%)	0 (0.0%)
Total employees	1,951 (79.6%)	1,907 (82.7%)	1,918 (82.2%)	97 (4.0%)	86 (3.7%)	83 (3.6%)	403 (16.4%)	314 (13.6%)	331 (14.2%)

Championing diversity (continued)

Age	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory directors	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%)
	2014	0 (0.0%)	0 (0.0%)	2 (18.2%)	3 (27.3%)	4 (36.4%)	2 (18.2%)
Senior managers	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%)
	2014	0 (0.0%)	1 (4.0%)	9 (36.0%)	14 (56.0%)	1 (4.0%)	0 (0.0%)
Total employees	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%)
	2014	133 (5.7%)	556 (23.8%)	614 (26.3%)	707 (30.3%)	318 (13.6%)	5 (0.2%)

Further information on our approach to diversity is provided in the section 'Employees and employment policies' in the Directors' Report later in this document.

Working ethically and respecting human rights
Our Human Rights Policy recognises international human rights as set out in the Bill of Human Rights, and the principles described in the UN Global Compact. The policy can be found at: http://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: http://www.keldagroup.com/media/337/code-of-ethics-2011.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 direct and indirect employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and are taking further steps to enhance our assurance that controls and standards are satisfactory throughout. In compliance with the Modern Slavery Act 2015 we have published a statement on our position, this can be found at: http://www.keldagroup.com/corporate-responsibility/modern-slavery-act-transparency-statement.aspx

Putting people's health, safety and wellbeing first
Our Occupational Health & Safety (OH&S) Improvement Plan pulls together all existing OH&S Operational and Non-Operational improvement initiatives from across the businesses and goes further.

The aim of the OH&S Improvement Plan is to continue to keep our current and future colleagues, contractors, suppliers and the public safe from harm and to improve the OH&S performance of the Group.

To initiate the OH&S Improvement Plan and to provide insight into the details of the OH&S plan, health & safety briefings to all colleagues were held in late 2015 and early 2016 by senior management and Trade Unions.

The OH&S Improvement Plan will be an enabler for us to achieve our strategic objective to keep our colleagues, contractors and suppliers healthy and safe from harm. It will also be the mechanism to deliver certification to the ISO 45001 Occupational Health and Safety Management System (OHSMS) Standard. This is a new international standard due for release in late 2016, and certification to it will supersede our previous plan to implement the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard.

Maintaining excellent drinking water quality
Protecting public health is our primary duty. Drinking water quality within Yorkshire remains excellent with 99.95% of hundreds of thousands of samples meeting stringent regulatory standards. This maintains performance on the previous year but is slightly behind our Performance Commitment. We are continually striving to improve compliance by working to improve our assets and processes, and by engaging with others. In particular, customers and the agricultural sector can have significant roles in determining performance against this measure.

We reduced the number of times customers needed to contact us regarding drinking water quality to 10,007 in 2015/16, down from 10,570 the previous year. This out-performed our Performance Commitment for no more than 10,131 contacts. We continue to drive improvement in this area, working towards our stretching Performance Commitment for no more than 8,120 contacts in 2016/17.

We have 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 five events with corrective actions in 2015/16, against a Performance Commitment for no more than six.

We are progressing our £13m programme to replace thousands of lead water supply pipes to improve drinking water supplies for 20,000 homes and businesses across the region. This programme will complete by 2017 and has been required to comply with recent changes to UK water quality regulations.

Metaldehyde is a pesticide used in slug control on arable crops and, although there is no human health risk from it, we are required to measure and limit its presence in drinking water supplies. There is currently no effective process for its removal from water supplies so we are researching possible future treatment options and working with the agricultural sector to minimise future risk.

Over recent decades raw water quality has deteriorated in many of our catchments, particularly in respect of colour, increasing the level of treatment we need to undertake to make water suitable for drinking. We use a twin-track approach to ensure that our customers receive high quality drinking water. We are investing to enhance treatment capabilities where the probability of failure presents a risk to compliance, or makes the water unacceptable to our customers. Our long-standing programme of capital investment is continuing with further activity in the current period from 2015 to 2020, including improvements at six large treatment works. We are also investing in catchment management as our primary long-term response to address the issues at source. We discuss our approach to catchment management in the section on the Excellent Catchments, Rivers and Coasts SBO.

Managing flood risk
We play our part in managing and mitigating flood risk by providing an effective drainage function through our sewer network. The number of sewer flooding incidents shows an overall trend of reduction over time as we continue to invest in the network and lower the

number of properties on the regulated flood risk register. However, there is annual fluctuation in the figures because flooding performance is strongly influenced by the weather.

Many communities again experienced disruption following a number of extreme rainfall events during the year. Over 10,000 homes and businesses across Yorkshire were flooded during the heavy rainfall over the Christmas 2015 period. Throughout the event, and after, we worked in partnership with the other flood management authorities and supported our customers. Despite the challenging circumstances, we maintained water supplies to customers. Over 100 Waste Water Treatment works and pumping stations were affected by the flooding, resulting in a substantial repair programme, which is ongoing. We appreciated mutual aid from Wessex Water, Welsh Water and Northumbrian Water to help clean sewers that had silt debris left behind after the widespread river flooding.

In 2015/16, we out-performed our new Performance Commitments for internal and external sewer flooding. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. We invested approximately £17m on the network in 2015/16, reducing the number of flooding incidents by resolving issues where sewers are overloaded or blocked, for example. We also continued to invest in our long-term programme to develop sewer network models, called Drainage Area Plans, so that we can continue to enhance our approach and performance.

We continue to work in ever-closer partnership with others to manage flood risk in Yorkshire, for example:

- Investing in Sustainable Drainage Solutions (SuDS) schemes in Hull and surface water removal schemes with Leeds City Council. Further joint schemes are agreed and funded for 2016/17;
- Jointly modelling the flood risk in parts of Hull and Goole, and developing a long term surface water management plan with Hull City Council and East Riding Council;
- Jointly investigating the benefits and risks of using reservoirs for flood storage in the Don Valley and Hebden Valley. This work is ongoing, and any use of reservoirs for flood storage would only be one part of any flood mitigation solution;
- Providing funding for Skipton Flood Alleviation Scheme (FAS);
- Ongoing participation in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships.

By October 2016, we will complete our £16m investment in a surface water pumping station to enable four times more pumping capacity than was previously available, protecting around 15,000 properties in the Bransholme and Kingswood areas of Hull. The design has also incorporated a living 'green' roof and solar panels to enhance the sustainability of the development.

We are also investing to protect our own assets from flood risk to enhance the resilience of our services. For example, during 2015/16 we invested £0.5m to provide sheet piling flood protection to a critical raw water pumping station near York. This investment helped prevent the site from flooding during Christmas 2015, protecting water supplies to around 500,000 customers.

To further enhance our responsiveness we have purchased demountable flood defences called Watergates and are working to update our operational contingency plans for high-risk sites, called Vulnerable Asset Plans. We are also investigating the purchasing of weather stations, a targeted flood warning service from the Environment Agency, and additional temporary pumps and generators.

Climate change and urban growth increase the pressure on our sewer network and the risk of flooding. We have published documents setting out our risks and plans for climate change and storm water management. We will continue to invest to mitigate the risk and manage the consequences of sewer flooding. Our climate change strategy can be found on our website at www.yorkshirewater.com/climatechange.

Preventing pollution from our network

The total number of pollution incidents from our sewer network shows a reducing trend over recent years, albeit fluctuating each year because sewer performance is influenced by the weather. We achieved our pollution incidents Performance Commitment in 2015/16, for both serious pollution incidents, classed as Category 1 or 2 by the Environment Agency, and other pollution incidents, which are classed as Category 3. We recognise the need to go further and we are working to achieve our Performance Commitment for zero serious incidents by 2020.

We and other UK water companies have received substantial fines for pollution incidents following a revision to the guidelines for sentencing environmental offences in July 2014. The revised approach greatly increases potential fines for pollution incidents by linking penalties to company turnover, amongst other factors. Under this new approach, we have received the following fines in recent months, relating to incidents that took place in 2013 and 2014:

- In January 2016, we were fined £600,000 for a pollution incident in Wakefield, when sewage from a burst rising main entered a nearby watercourse.
- In April 2016, we were fined a total of £1.1m for three offences at Naburn Waste Water Treatment Works.

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

Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our strategic partnership with WaterAid that will deliver knowledge sharing on water and sanitation, provide infrastructure support and much more. We have committed to raising £1m for projects that will transform lives in Ethiopia through donations from colleagues, customers, partners and Yorkshire Water. We also want to go beyond fundraising and in June 2015, we sent three expert volunteers to advise and assist Ethiopia's Bishoftu water company on various aspects of water distribution and water quality.

As part of the Big Wish we have worked in collaboration with WaterAid to develop a youth engagement programme which will see volunteers going into schools and youth groups to deliver key messages about global safe water at home and in developing countries, and helping raise much needed funds for Ethiopia.

Reducing pollution and enhancing river water quality
We collect, treat and return one billion litres of wastewater safely back to the environment every day. We have delivered a step change in river water quality over the last 20 years by investing in the region's wastewater treatment works and network. Our improvements are protecting and enhancing biodiversity in the region's water environment.

We maintained high standards of wastewater treatment in the 2015 calendar year, with 99.32% of our wastewater discharges compliant with the requirements of their permits. We achieved the same performance in 2014. Two of our approximately 600 Waste Water Treatment works failed to meet the requirements of their permits. Whilst it is our aim to continue to achieve this level of performance and drive towards 100% compliance, our Price Review business plan was based on continuing to achieve the stable reference level of five failing works. In the Environmental Performance Assessment, the Environment Agency classified our performance as 'above average' status in 2015.

Working with the Environment Agency (EA) we have finalised details of our programme of environmental investment and investigation needs to 2020. We have already started delivering this programme, which will result in substantial investment to further enhance our wastewater treatment capabilities. Where there is uncertainty, we will be carrying out investigations to inform the long-term approach. This activity will support our Performance Commitments for length of river improved and the stability and reliability factor for wastewater quality.

While delivering environmental water quality benefits, new wastewater treatment capabilities can be financially expensive and carbon intensive. In 2014/15, we made a suite of 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.

Investing in the region's bathing waters
We have completed our £110m investment to enhance Yorkshire's coastal water quality, ensuring our assets are ready to comply with the tighter requirements of the revised Bathing Water Directive, which came into effect for the 2015 bathing season.

In 2015, 10 of Yorkshire bathing waters were rated as Excellent, eight as Good, one Sufficient, and one Poor. The bathing water at Staithes failed to meet the required minimum standard, as a result of agricultural runoff. This is a long standing problem and the Government has recently removed Staithes from the designated list of bathing beaches.

Of the eight resort beaches in Yorkshire, four will be able to apply for the coveted Blue Flag in 2016. We delivered the wastewater standards required to achieve eight Flags and we continue to work with the Environment Agency and local councils through the Yorkshire Bathing Water Partnership to tackle other sources of pollution, such as wrongly connected domestic drainage, which could still be affecting bathing waters.

Protecting raw water quality
The quality of the raw water we take from the environment has been deteriorating in many areas over recent decades, a consequence of pollution, unsustainable land management practices and climate change. The more polluted raw water is, the more we need to treat it to make it fit for drinking. We respond with a twin-track approach: enhancing water treatment capabilities to ensure delivery of high quality drinking water (discussed in the Safe Water SBO section), and addressing problems at source through our catchment management programme (discussed here).

Peat moorlands are particularly important in our region because they are the source catchments for a large proportion of our drinking water. Degraded peatlands are prone to erosion, requiring extra water treatment to remove colour, and also releasing greenhouse gas emissions. We focus on building resilience into upland catchments by working with partners to repair and protect peatlands, and inoculating peat forming species, such as Sphagnum moss.

We are providing financial and technical support to the MoorLIFE2020 project. This is a five year, €16m, multi-agency programme of work to protect blanket bog in the South Pennines Special Area of Conservation (SAC). The programme will include activity to stabilise bare peat, raise water tables and improve water quality by blocking erosion gullies, re-introducing native shrubs, managing invasive species, and increasing the diversity and amount of Sphagnum moss. The programme is managed by the Peak District National Park and will be delivered by the Peak District National Park Authority, National Trust, RSPB and Pennine Prospects. We are co-financing the project with EU-LIFE (an alliance of 13 European life science research centres), Severn Trent Water and United Utilities. This supports implementation of the Government's Blanket Bog Restoration Strategy, which we helped to develop over the last two years.

We have continued to collaborate with the Environment Agency, Natural England and the National Farmers Union to protect water catchment areas by developing Safeguard Zones and supporting Safeguard Zone Action Plans. We have agreed a programme of work to help address diffuse water pollution between 2015 and 2020, which includes working with the agronomy sector to influence farming practices with a focus on recognising and valuing the multiple benefits healthy soils can deliver, including long term improvements to water quality. We will also be investigating nitrate and other pollutants that present risks to a number of our groundwater sources.

Managing our land to maximise value for society
With approximately 28,000 hectares, we are one of the largest landowners in Yorkshire. While ensuring the land is managed to protect water quality, we also work to maximise wider benefits.

We have programmes to conserve and enhance our land to protect biodiversity. For example, we have been working with the Forestry Commission and Natural England since 2011 to conserve large areas of ancient woodland by removing non-native trees and invasive weeds, and re-introducing native trees such as oak and hazel.

We provide a range of recreational opportunities by providing open access to much of our estate. Users consistently report very high levels of visitor satisfaction when surveyed. In 2015, we engaged with a range of potential organisations we could partner with to help enhance the diversity of those able to take value from our land. We identified a number of new approaches that we are now developing and investigating. Find out more about our recreational offering on our website at: http://www.yorkshirewater.com/run

When land becomes redundant to our business needs, KeyLand Developments seeks to regenerate that land. For example, we have submitted a request for planning permission to redevelop a redundant treatment works into 500,000 square feet of new business space which could help generate 1,000 jobs, as part of the broader 375-acre City Fields plan to create a new community to the east of Wakefield.

Using the concept of Financial, Natural and Social Capital, we are working to maximise the value of all our land for customers and Yorkshire Water. Having assessed options at our site at Humberstone Bank Farm in North Yorkshire, we found that managing the site for nature would enhance value. We are now engaging externally to find the best partners to help us implement this new approach at the site.

Securing water supplies
We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining over 50 Water Treatment Works and a distribution network of 31,000km of water mains. Following our investments, Yorkshire has had no service restrictions such as hosepipe bans since the 1995/96 drought.

Detailed assessments for our Water Resources Management Plan (WRMP) and Drought Plan confirm 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 resources management is our most mature area of resilience and planning. We have taken advantage of the mix of water supply options in our region by developing a grid that allows us to move water around the region to where it is needed. We manage the grid to offer one of the most resilient water supply systems in the country.

Our WRMP describes how we will maintain the balance between water supply and demand over the next 25 years. Our Drought Plan contains a framework of options that allow a drought to be best managed dependent on conditions. In the event of a drought, our advance planning enables us to act quickly because our selections of options have been assessed for their potential environmental impact and mitigation strategies. Both documents and more information can be found at:
https://www.yorkshirewater.com/resources

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

Reducing Yorkshire Water's own water use
We aspire to demonstrate our leadership in the efficiency of our operational use of water, especially potable water. We have taken steps to improve our operational water efficiency, for example by repairing a leaking penstock at Ruswarp Water Treatment Works to save 1Ml/d (megalitres of water per day). We have also completed audits on some of our largest Waste Water Treatment works to identify further improvement opportunities. Our site audits demonstrated that we need to enhance the level at which we monitor our operational water consumption. We continue to examine and drive our performance, and are working to demonstrate our leadership by securing the Carbon Trust for Water by the end of 2017/18.

Sustainably minimising leakage
We measure, report and reduce leakage as the dominant source of water waste. Approximately two thirds of total leakage results from our distribution network and one third is from customers' supply pipes. We have almost halved leakage since 1995. Our Performance Commitment for leakage is to maintain leakage no higher than 297.1Ml/d, the Sustainable Economic Level of Leakage (SELL). The SELL is an industry term and 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 in order to provide extra security in our ability to meet the supply demand balance.

We completed an options appraisal for our WRMP, to identify the most cost effective solutions to ensure supply can meet demand over the next 25 years, while minimising the impact on the environment. Initially we will be investing in further leakage reduction because this has been assessed as the most cost and environmentally effective way to mitigate the risk of climate change on the supply demand balance. By 2020, we will further reduce our leakage target in line with the SELL, to no more than 287.1Ml/d. In 2015/16, we kept leakage below this target, achieving 285.1Ml/d. We will strive to continue finding ways to sustainably reduce leakage by focusing our operational resources and further innovation.

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 2015/16, we helped our customers save over 5Ml/d by providing free water saving devices and a range of advice and support services. Savings for non-household customers are confirmed though metered bills and savings for domestic customers are based on assumptions for each of the efficiency products we provide. We are reviewing new and innovative approaches to inform our future plans to support our customers in saving even more water and improve the accuracy of domestic efficiency assumptions. More information can be found on the water efficiency section of our website at:
https://www.yorkshirewater.com/save

Reforming abstraction licences and encouraging water trading
The Water Act 2014 introduced new provisions to facilitate the creation of a national water supply network and further improve the country's water efficiency and resilience. The Act aims to make it easier for water companies to buy and sell water from each other. We have traded water with our neighbouring water companies for many years and consider such options as a standard part of our planning. We have a notable import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs. We documented our water trading policy in early 2015 and continue to investigate new trading opportunities that may prove financially and environmentally effective options to maintain the water supply demand balance in the future.

The Government is working to reform the abstraction licence regime over the coming years, with primary legislation anticipated. We are engaged with Defra, UK Water Industry Research (UKWIR) and Water UK to monitor and inform the evolving national approach.

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 2015/16 we:

- Were recognised for our leading approach by being included in the Top 100 Apprenticeship Employer list, one of only three water companies to be included;
- Rolled out a variety of e-learning packages to colleagues, covering topics from environmental management, to diversity awareness, to corporate governance;
- Continued developing colleagues through our Management Excellence Programme;
- Introduced progression plans for all non-managerial roles to help inform Personal Development Plans and ensure salaries are in line with external benchmarking;
- Maintained our certification as a Living Wage Employer, resulting in a pay increase for 85 colleagues.

We discuss how we manage relations with colleagues, diversity and human rights 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 18.7% since 2008/09, by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Grid electricity is the largest single source of our carbon footprint, so national performance in decarbonising grid electricity has a substantial impact on our reportable emissions.

Our success in achieving the Carbon Trust Standard (CTS) demonstrates our performance through an independent verification process. We will continue to monitor and publish our operational emissions and we are committed to maintaining the CTS, which will require continued reduction in our operational emissions.

Our emissions are shown in the table below. We estimate our emissions using the agreed water industry approach that aligns with Government reporting guidelines and latest emission factors.

The intensity ratios can vary substantially each year. This is because the ratios are determined by the volumes of water and wastewater we treat, which themselves vary in response to customer demand and the weather. For example, the volume of wastewater treated in 2015/16 was notably higher than the previous year, improving the efficiency per unit treated. Further variability results from annual changes in the national emission factors, particularly that for national grid electricity which reduced 6.5% in 2015/16 on the previous year.

	2015/16	2014/15	2013/14
Operational emissions – tonnes of carbon dioxide equivalent (tCO_2e)			
Scope 1 emissions tCO_2e	84,477	85,880	83,066
Scope 2 emissions tCO_2e	240,642	252,034	245,228
Scope 3 emissions tCO_2e	28,884	31,824	29,262
Total emissions tCO_2e*	353,108	368,871	356,982
Intensity ratio – kilogrammes of carbon dioxide equivalent ($kgCO_2e$)			
Emissions per million litres of water served	282	301	264
Emissions per million litres of waste water treated	265	326	320

*The figures for Scope 1, 2 and 3 emissions are gross and therefore do not add up to ‘Total emissions’.
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 (or heat or steam) to pump and treat water and wastewater.
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.

Reducing embedded greenhouse gas emissions
Embedded emissions are those that result from the purchase of goods and the construction of new assets. Evidence shows that driving a transformation in embedded carbon should help us realise new cost efficiencies, drive innovative and partnership solutions, and enhance our environmental performance.

We are working to reduce the emissions embedded in our capital investments and we have made six commitments to the Government’s Infrastructure Carbon Review. One of our commitments is that by 2020 we aspire to be halving the carbon emissions embedded in the new assets we build, compared to a 2015 baseline. In 2015/16, we documented our baseline, and we established a carbon working group to monitor and drive our progress towards our carbon commitments. We also continued to develop our process to capture as-built carbon information from our capital investment schemes and use this to continually improve our carbon models to inform our investment planning. Carbon management is central to our new Sustainable Assets and Services policy.

Managing electricity consumption and costs
Our electricity use results in about 75% of our operational emissions (discussed above) and it 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.

In 2015/16, we consumed 578GWh of electricity and generated 65GWh of renewable electricity, primarily by harnessing the calorific value of sewage sludge. For example, our new £23m bio-energy plant at our Blackburn Meadows treatment works in Sheffield is now generating 18% of the energy we use on that large site. Overall, we supplied 11.3% of our electricity needs through renewable self-generation. We were on track to achieve our Performance Commitment to generate 12% of our energy needs following completion of a range of energy investments; however, our digestion facility at Esholt Treatment Works in Bradford was damaged during the Christmas 2015 floods.

We forecast an increase in our consumption and cost of electricity if we do not continue to act. To mitigate this risk we continue to focus on increasing our energy efficiency and our ability to generate renewable energy. Through our investments, we are working to go beyond our Performance Commitment by generating approximately 18% of our own needs by 2020. Relevant plans include:

- A £71.9m investment in a sludge treatment and anaerobic digestion facility at our Knostrop works in Leeds. This will complete in 2019;
- A £1.6m investment by Kelda Water Services (KWS) to install a 0.5MW wind turbine at Old Whittington Treatment Works in summer 2016;
- A planning application for the installation of solar panels adjacent to Elvington Treatment Works, which would provide 15% of the site's needs, if approved.

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 remain efficient, reduce our environmental impact, keep bills low for customers and provide returns for investors.

Sewage sludge is a large and renewable resource. Through a variety of approaches, we are generating renewable, low cost, low carbon energy from sewage sludge (see examples listed above in the electricity section). After treating the sludge we also create products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts.

We have been successful in increasing the rates of recycling from our offices, construction sites and operational sites. In 2015/16, we have continued to enhance our understanding and have increased recycling rates to 98.9%, exceeding our Performance Commitment.

We continue to develop our approach to the circular economy because we want to go further than diverting waste from landfill. We are working on a range of projects with circular economy principles at their core, each at different stages of investigation and implementation.

KeyLand Developments is returning large volumes of redundant waste water filter media at our Esholt works in Bradford back to good use as an aggregate, working in partnership with Thompsons of Prudhoe. By the end of 2015/16, 40,000 tonnes had been sold for reuse, of which about 25,000 tonnes was used in the construction of the new Apperley Bridge Rail Station adjacent to the Esholt site. Once the last of the material has been recovered, the large footprint of the redundant filter beds will be prepared for brownfield redevelopment. This is only the first part of our ambition to make the Esholt site one of the most sustainable in the world and an internationally leading demonstration of the circular economy in practice. The site is already almost entirely self-sufficient for its large energy needs from low carbon renewable energy generated on site, primarily from the digestion of sewage. Our vision for the site is one that supports sustainable economic growth in the region by maximising the value of 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 will work with our supply chain to ensure security of essential supplies, continually 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 launched a new framework to consistently incorporate a holistic set of sustainability criteria in our procurement decisions. From September 2015 all new contracts have been required to follow our new framework, which includes for a sustainability risk assessment. This was one of six commitments we made to the government's Infrastructure Carbon Review.

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, effective and proper 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:
https://www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment

Managing our financial performance
Yorkshire Water's 2015/16 financial results are consistent with, and represent delivery of a strong financial performance against, the first year of our five year financial business plan, which we call our "Blueprint".

The decrease in turnover to £975.8m (2015: £1,007.8m) is in line with expectation following Ofwat's Final Determination at the last Price Review.

Operating costs have been closely managed in the year and are in line with our Blueprint financial business plan. Compared to the previous year, operating costs (excluding exceptional items of £26.5m relating to flooding in December 2015) have increased by £88.9m. The increase has principally been caused by an increase in depreciation from the level of capital programme activity, an increase in pension deficit payments as agreed within the actuarial review in 2012, and the effect of inflation. This has led to a reduction in operating profit to £248.7m (2015: £395.6m) and a reduction in EBITDA before exceptional items to £550.7m (2015: £620.6m).

The period over Christmas saw extensive flooding in the Yorkshire region. Additional costs associated with the flooding event are shown in the financial results for 2015/16 as an exceptional item, as is the insurance receipt received during 2015/16. The insurance claim is ongoing.

The overall operating profit of Yorkshire Water is £248.7m (2015: £395.6m) which is lower than last year due to increased operating costs; and lower revenues within the year following reduced customer bills from Ofwat's Final Determination revenue controls. Within this operating profit are exceptional costs of £26.5m that relate to the December flooding which affected a number of our sites.

The net interest payable before exceptional items has reduced to £169.6m (2015: £191.8m). This was primarily a result of lower inflation (RPI) leading to lower amounts being charged on our index linked debt instruments.

Gearing at Yorkshire Water was 77.9.0% on 31 March 2016 (2015: 78.3%). We are targeting gearing at approximately 80.0% (subject to inflation) by 2020. This approach will maintain the strength of Yorkshire Water's balance sheet and also gives us flexibility to manage the impact of any significant unforeseen events.

RCV for 2015/16 is fixed at 2013 prices in line with Ofwat's Final Determination at the last Price Review. Actual RCV for 2015/16 is lower than target, as the actual RPI for 2015/16 (1.6%) was lower than originally forecast (3.1%).

Governing our capital and operational investment programmes
In this first year of the new Asset Management Period (AMP), we have achieved 24 of our 26 new Performance Commitments to customers and regulators. The four Stability and Reliability Factors remain 'stable', demonstrating the effective long term management of our assets and services.

The extensive flooding over the Christmas period of 2015 has caused significant damage to our assets, although we worked hard to ensure there was no interruption to customers' water supplies during the extreme weather event. We have instigated a major recovery programme and expect the total cost to run into the tens of millions on our assets. We continue to value the cost of repairs and are working with our insurers to recover these costs. As a consequence of this and other recent claims, we have seen an increase in our insurance premiums and excess.
As with previous investment periods, if we are unable to deliver our capital investment programme at expected expenditure levels, are unable to secure the expected level of efficiency savings, or the programme falls behind schedule, profitability might suffer because of a need for increased operating expenditure. Ofwat may also factor such failure into future Price Reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. Our ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10% of turnover or other sanctions.

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

Governing our borrowing requirements
Our treasury operations are controlled centrally by a treasury department, which operates on behalf of all companies in the Group and is controlled by the ultimate parent company. 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 company, operating within the debt covenants. Subject to the restrictions required by the Whole Business Securitisation (explained below), funds raised may be lent to or from Yorkshire Water at commercial rates of interest. Cash surplus to operating requirements is invested in short term instruments with institutions having a long term rating of at least A-/A-/A3 and a short term rating of at least A1/F1/P1 issued by Standard and Poor's, Fitch and Moody's respectively.

Managing financial risk
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.

The operation of the 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 policy and procedures are incorporated within our financial control procedures.

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 the Group's activities. The interest rate swaps and cross currency interest rate swaps are held at an amortised cost of £nil and had a net positive mark to market value of £60.9m (2015: positive value of £34.9m).

Our turnover is linked to the underlying rate of inflation (measured by RPI) and therefore is subject to fluctuations in line with changes in the rate of inflation. In addition, the percentage of net debt to RCV is a key covenanted ratio of the Whole Business Securitisation (WBS, discussed later in this section). RCV is linked to RPI so negative inflation, without management, could breach this ratio despite Yorkshire Water being profitable. To mitigate this risk we maintain levels of index linked debt and swaps. The swaps are an arrangement such that interest is both payable and receivable on a notional amount of £1,289m. In the case of the index linked swaps, six month LIBOR is receivable and interest is payable at fixed amounts plus RPI. Movements in RPI are also applied to the debt. The maturity of the swaps ranges from 2026 to 2063. 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. With long term expectations of LIBOR at historically low levels, the swaps held by Yorkshire Water gave rise to an out of the money mark to market value of £2,390.7m (2015: £2,076.8m) at the year-end date.

Included within the terms of the derivatives are mandatory breaks at 2020, 2023 and 2025. Management has plans in place to manage the breaks. During the year, we successfully removed the mandatory breaks on £160m notional of index-linked swaps that had mandatory breaks at 2018.

We are exposed to commodity price risk, especially energy price risk, as a result of our operations. 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 the year we took the opportunity in this period of low energy prices to fix our energy costs to 2020.

Our insurance team work to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

See note 22 of the statutory financial statements for more details on the financial instruments held by the Group.

Managing our credit ratings
In March 2016, Fitch affirmed that it held the rating of our Class A debt at 'A' and the rating of our Class B debt at 'BBB+'. At the same time, Fitch revised the outlook on the class A debt to Stable from Negative.

Also in March 2016, Standard & Poor's announced that they had affirmed the ratings of our Class A and Class B debt at 'A-' Stable outlook and 'BBB' Stable outlook, respectively.

In September 2015, Moody's affirmed our Corporate Family Rating at 'Baa2; Stable outlook and also affirmed our Class A and Class B debt at 'Baa1' Stable outlook and 'Ba1' Stable outlook, respectively.

Preparing for increasing competition in the water industry
The Water Act 2014 aims to reform the water industry to make it more innovative and responsive to customers and to increase resilience to natural hazards such as drought and floods. We have been making the necessary preparations to manage the opportunities and risks presented by the Water Act 2014 reforms.

From April 2017 businesses, charities and public sector customers in England will be able to choose their retailer of water and wastewater services. This will connect with the existing retail market in Scotland. Growing retail competition increases the application of the Competition Act 1998 to our business and the wider water industry. We are well underway in separating our business retail activities from the rest of our Yorkshire Water business. We will be implementing the necessary preparations and controls to ensure compliance, fair trading practices and to maximise the opportunities of this new market.

The Water Act 2014 also introduces measures beyond retail separation, including abstraction licence reform and water trading. These are discussed in the Water Efficient Regions SBO section.

Ensuring affordable water services and managing customer debt
We recognise that many customers are struggling with the cost of living. Our customer bills are some of the lowest in the country and we are committed to keeping them low. We reduced the average bill in 2015/16, to £360, and we will not increase prices in real terms before at least 2020, capping any rises to no more than the value of the Retail Price Index (RPI).

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 price limits for a proportion of debt deemed to be irrecoverable. To help minimise bad debt we operate a range of schemes designed to help customers who genuinely cannot afford to pay their bills while having strong processes in place for overall debt collection. One of our new 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 have extended our portfolio of assistance packages by fully implementing our new 'social tariff' support scheme, Water Support, in 2015/16. This followed a successful trial the previous year. Water Support is aimed at customers whose household income is assessed as being 'low' and have a bill over a set threshold (£410 in 2015/16). Under the scheme the customer's bill can then be capped at the cost of the average Yorkshire Water bill (£360 in 2015/16). Through our range of support packages we helped 22,735 of our customers struggling to pay their bill in 2015/16, and we aim to increase this further in the coming years. Our team leading this work were recognised as Vulnerable Support Team of the Year at the national Credit Today Utility and Telecoms Awards.

The Consumer Council for Water (CCW) survey water industry customers about perceived value for money. In May 2016 the last survey found levels of value for money increased from 76% to 82% for our water service, and from 77% to 83% for our waste water service. Our Performance Commitment is to continue improving.

Kelda Water Services Ltd (KWS)

KWS is a leading UK water and waste water contract operations company, providing water and waste water operations and maintenance under long term contracts. In the year, KWS had external turnover of £85.7m and operating profit of £9.6m (2015: £94.3m and £8.3m respectively).

KWS continues to operate across the UK through its three principal 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); and
- KWS Grampian in Scotland (KWS Grampian Limited and Aberdeen Environmental Services Limited).

KWS Defence had another excellent year, outperforming its planned operating profit target by £0.8m. At the half way point in the contract the relationship with the client is strong, which is attributable to our partnering approach and contract performance.

KWS Alpha delivered a satisfactory performance in the year despite volumes dispatched continuing to be lower than plan. This year also saw the successful completion of a major capital project to increase the pumping capacity from the Castor Bay water treatment works as part of a larger NIW project to improve security of water supply to Belfast.

KWS Grampian delivered a year of recovery, incurring as expected further exceptional costs of £9.0m in the period. As a result, the operational performance and compliance of the business has recovered.

During the year, the structure of the senior leadership of the business was changed to provide an Operations Director and a separate Commercial and Asset Planning Director, who have responsibility across all KWS subsidiary companies. This structure replaces the previous vertical structure of separate leadership of each subsidiary business. This change has been made to enhance the cross business sharing of best practice and is already benefitting the business.

During the year, construction of an anaerobic digestion facility for Edinburgh and Mid-Lothian council was completed and the year also saw commencement of construction of a second anaerobic digestion scheme to deliver Cardiff Council's Organic Treatment Project in Cardiff.

Bridgeport

Kelda held a contract to provide sewerage services to the City of Bridgeport in Connecticut, US that terminated on 31 December 2013. The two US entities involved in this contract were formally dissolved in December 2015.

Loop Customer Services Management Ltd (Loop)

Loop's principal business is the provision of customer management services to Yorkshire Water, 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 keeping bills as low as possible" and "We providing the levels of customer service you expect and value"* through the 6 associated performance commitments.

In 2015/16 the Billing service provided by Loop maintained its position as industry leading. The quality of service as measured by SIM qualitative survey was 4.61 out of 5, the highest achieved by the 10 WASC's.

To improve the customer experience for non-billing contacts Loop has reviewed its operational customer management which resulted in the creation of an Operational Contact Centre. This will focus on up-skilling colleagues in both the technical and customer skills to deliver an industry leading service for operational contacts.

Loop's approach to support for vulnerable customers has received BSI accreditation for "consumer vulnerability". This means Yorkshire Water is the first water company to achieve this standard. Loop has also been recognised with a national award for "Vulnerability team of the year" at Utilities & Telecoms Awards 2016. The Performance Commitment for the number of customers helped to pay their bill was exceeded with financial support being given to 22,735 customers to the value of £7.8m.

The performance commitment on bad debts as a ratio of average bill was also exceeded at 3.07% compared to a target of 3.16%. This means Loop is effectively keeping the cost of collection as low as possible. Ofwat's Affordability and Debt report for 2015 calculated the average cost of debt per customer bill for the industry is £21. The equivalent cost of debt calculation for Yorkshire customers is £11.80.

Loop's Retail Readiness programme is on track for shadow market opening in October 2017. They have an agreed Target Operating Model, which was implemented in April 2016, and following the selection of RapidXtra and Echo Managed services as their system partner are confident in their ability to deliver a market compliant service for April 2017.

Engaging colleagues has been a key initiative and will remain a focus in the coming year. Health, Safety and Wellbeing performance has improved significantly. The re-launch of Loops approach to safety last year has seen both leadership and personal safety culturally embedded. This year they will widen the engagement to ensure both Wellbeing and Process Safety are incorporated into our business.

Their Great Place To Work programme has laid the foundations for a transformation of the "employee life cycle" at Loop and the way they managed and invest in colleagues. Colleague feedback through both Trust and GPTW scores has seen improvements throughout the year and they believe we are on track to achieve the Best Companies 1 star accreditation in 2017.

Safe-Move

SafeMove is a non-regulated trading arm of Yorkshire Water which produce and sell property search information to solicitors and search agents including information covering drainage and water services.

Housing transactions in Yorkshire increased slightly on the previous year helping the business increase its sales volumes. This coupled with a continual trend to minimise its operating costs helped the business over achieve on its financial targets.

Keyland Developments Ltd (Keyland)

The property market continued to improve during 2015/16, particularly in the residential sector and activity consequently centred on bringing forward residential sites through the statutory planning system to meet the improving demand.

The Keyland business continued to focus on maximising the value of property assets released by Yorkshire Water. In addition, Keyland has continued to identify and secure further opportunities by working with third party landowners seeking to bring forward potential development sites.

Keyland disposed of its commercial development interest in the Templegreen development site in Leeds, during the year, as the project moved into the construction phase. Keyland also made progress on a number of other 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;
- the fluctuating market conditions, which affect the value of properties or 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.

Three Sixty Water Limited (Three Sixty)

Three Sixty Water Limited is the new company name that was previously registered as Kelda Water Services (Retail) Limited.

The UK Water Act 2014 established the framework to create a market that will allow 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. Retail services include things like billing and customer services. The Group has confirmed its intent to be an active participant in the market and established Three Sixty as the Group business to take this forward.

The market will work in much the same way as in other utility services - and link with the existing Scottish market - where a range of suppliers compete for customers by offering them the best deal. The suppliers will buy wholesale services from the former monopoly suppliers. They will then package them with other value-adding services for their customers at competitive prices. Investors and retailers will have new opportunities for growth. And the environment will benefit from customers using new water efficient services.

DEFRA and Ofwat are co-ordinating the development of the framework, systems and key documents (codes, processes and agreements) that are necessary for an effective market. The private company Market Operator Services Ltd (MOSL) has been created to run the market aspects of the framework. The key dates for delivery of the new market are:

- October 2016– Shadow operations (where the new market will run in parallel with existing one).
- April 2017 – Go-Live of new market.

Yorkshire Water as an incumbent licence holder must comply with the changes mandated in relation to the introduction of this market. Yorkshire Water has decided to continue to operate as a Retailer providing retail services to existing Yorkshire based Non-Household (NHH) customers and has identified Three Sixty to manage the retail operation, with Loop in turn providing customer management of the operational, billing and collection services on behalf of Three Sixty.

As Retailer, Three Sixty for NHH customers will operate separately and independently from the Yorkshire Water Wholesale business. They will interact with MOSL predominantly via data transactions, and interact with Wholesalers operational contacts and Wholesale Service Desks. The programme of work to establish the separate Retailer/Wholesaler functions is ongoing to meet the timescales identified above.

During 2016/17 Kelda Retail rebranded and registered the company name as Three Sixty water Limited and is operating as a distinct business within the Kelda Group to compete in the fully open market from 2017. At the same time it is planned that Three Sixty will assume total responsibility for the NHH customer base and Yorkshire Water will remain the monopoly wholesaler and provider of integrated domestic services.

Group Financial Performance

Earnings before interest tax depreciation and amortisation (EBITDA) are considered by Shareholders to be the key measure of the businesses profitability.

Key financial performance indicators

	Year ended 31 March 2016	Year ended 31 March 2015
	£m	£m
Operating (loss)/profit from continuing activities	(137.4)	419.3
Operating profit before exceptional items and share of associates and joint ventures (loss)/profit after tax	294.7	417.2
EBITDA before exceptional items (see note 4)	584.9	653.7

Operating results for the year

The results for the year show an operating profit before exceptional items and share of associates and joint ventures (loss)/profit after tax of £294.7m (2015: £417.2m). Of this, £250.0m (2015: £384.3m) is generated by Yorkshire Water's regulated water business. Note 3 to the financial statements shows the profit split by segment.

Exceptional items for the year

Exceptional items comprise:

	2016	2015
	£m	£m
Included in operating costs:		
Release KGI Bridgeport company provision	**0.2**	9.1
Contract compliance costs	**(5.5)**	(7.5)
Exceptional flooding costs	**(26.5)**	-
Impairment of goodwill	**(400.0)**	-
	(431.8)	1.6
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	**-**	4.2
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**8.1**	4.8
	137.1	9.0
Included in finance costs		
Movement of fair value of index linked swaps	**-**	(369.9)
Movement of fair value of finance lease interest rate swaps	**(0.7)**	(8.6)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(3.7)**	-
	(4.4)	(378.5)

The directors have prepared an impairment test, which showed that there was an impairment of goodwill of £400m for the year ended 31 March 2016 (see note 10 for details of the basis of this test).

Included in operating costs is an exceptional gain of £0.2m, relating to the release of the Bridgeport provision which is no longer required (see note 18), and an exceptional item of £5.5m for the cost of meeting contractual obligations at the Aberdeen site.

In addition, an exceptional charge of £26.5m resulted from the impact of severe flooding at certain operational sites of Yorkshire Water during the year. This charge consists of an asset impairment of £35.0m, operating costs of £1.5m and insurance income of £10.0m.

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 2016 resulted in a £1,734.3m liability (2015: £1,858.3m).

Of the year on year movement of £124.0m, a charge of £21.8m (2015: £61.6m) relating to RPI accretion has been recognised within finance costs, an income of £129.0m (2015: £369.9m charge) has been recognised as exceptional finance income/cost and the net remaining movement of £16.7m (2015: £19.6m) was cash paid. This income has been included in the income statement as the specific circumstances, which would allow it to be held in reserves, have not been met.

The movement 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 2016 resulted in a £24.9m liability (2015: £24.2m). The year on year increase of the liability of £0.7m (2015: £8.6m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances, which would allow it to be held in reserves, were no longer met. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance 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 2016. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £3.7m charge (2015: £4.2m credit) to the income statement.

Exceptional finance income also includes 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 2016. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £8.1m credit (2015: £4.8m credit) to the income statement.

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 2016 and concluded the carrying value of the assets are in line with fair value. At 31 March 2015 this review resulted in a net revaluation surplus of £187.1m after deferred tax.

Risk Analysis - Principal risks

↓ Decreased risk ↑ Increased risk → No change to risk

	Principal risk	Change in year	Risk to SBOs	Treatment plans: Cross Business	Treatment plans: Bespoke
1	**Failure to protect colleagues and the public from harm** We play a critical role in protecting the safety, health and wellbeing of our customers, colleagues and contract partners.	→		• Forecasting and long term planning • Business planning • Emergency response and escalation • Regulatory monitoring and reporting • Day-to-day management controls, including 24/7 Service Delivery Centre • ISO certified integrated management systems • Dynamic risk management culture and systems • Internal audit and external assurance • Internal monitoring and measurement • Stakeholder engagement and influencing • Customer insight and feedback • Training and development • In-house and partner expertise and experience • Maintenance and enhancement investment programmes • Governance and assurance processes	• Occupational Health and Safety Management System • Health and safety improvement programme • Board Safety, Health and Environment Committee (SHE)
2	**Failure to deliver 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.	→			• Flexible grid network • Water Resources Allocation Planning (WRAP) • Drinking Water Safety Planning • Investment in water efficiency and leakage
3	**Failure to respond to external threats and opportunities** We need to ensure we are fit for the future and able to deal with the impacts of population growth, climate change and extreme weather conditions. We also need to manage various threats (malicious or accidental) our resources, assets and infrastructure are exposed to and which could impact the provision of our essential services.	↑			• Long term planning, eg climate change strategy and Water Resources Management Plan • Investment programmes in water efficiency, flood risk management, and energy efficiency and renewables • Innovation programme preparing for future challenges • Insurance • Collaboration, for example with Local Resilience Forum and national security bodies
4	**Failure to manage waste water** We must effectively maintain and operate our sewer network and waste water treatment works to ensure a healthy environment, avoid pollution and play our part in managing flood risk.	→			• ISO certified Water and Environmental Management Systems • Investment programmes in waste water treatment, networks and bathing waters • Pollution incident reduction plan
5	**Failure to deliver our customer promise and outcomes for stakeholders** We know, through consultation, what our customers and key stakeholders expect of us. We must deliver our commitments to ensure our regulatory compliance, reputation and our licence to operate.	→			• Customer and stakeholder consultation and engagement, informing our Price Review plan and local activities • Transparent reporting • Customer support services and investment programme
6	**Failure to comply with legal and regulatory requirements** We are highly regulated and non-compliance presents the risk of fines, enforcement action, and increased scrutiny and ultimately licence revocation. Currently operating within a competitive market.	→			• ISO certified integrated management systems • Controls and Risk Self-Assessment process • Preparing for increasing competition in the water industry
7	**Failure to achieve financial sustainability** We manage a variety of financial risks that include the effects of changes to debt market prices, interest rates, revenue and competition. Predictable and transparent regulation is key to maintaining credit ratings, and attract investment. The Western economy is still recovering from economic downturn.	→			• Blueprint business plan • Financial governance of all expenditure and costs, including Board Investment Committee • Supporting customer affordability and managing customer debt • Innovation programme preparing for future challenges
8	**Failure to execute and deliver strategy, systems, data and process** We must effectively execute essential strategies, systems and processes to avoid compromising our ability to operate efficiently and effectively, including our ability to make appropriate decisions and meet targets.	↑			• Blueprint business plan • IT and data control frameworks and investment • Short, medium and long term strategy and planning processes • Partnership working
9	**Failure to protect and manage our impact on the environment** We safely abstract and discharge to the water environment and manage substantial land holdings and emissions to the atmosphere, all aspects of our continual interaction with the natural environment.	→			• ISO certified Environmental and Quality Management Systems • Land, coast and river management programmes • Investment programmes in water efficiency, waste water collection and treatment, and energy efficiency and renewables

The Strategic Report was approved by a duly authorised committee of the board of directors on 4 November 2016 and signed on its behalf by:

Richard Flint
Chief Executive
4 November 2016

Corporate Governance Report

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

In April 2014 Ofwat published a document entitled "Board leadership, transparency and governance – holding company principles" ("the Ofwat Holding Company Principles") which set out the principles that Ofwat considers should guide the governance arrangements of the holding company of a regulated company operating in the water sector in England and Wales. These principles complemented those that Ofwat had published in January 2014 for regulated companies operating in the water sector in England and Wales ("the Ofwat Regulated Company Principles").

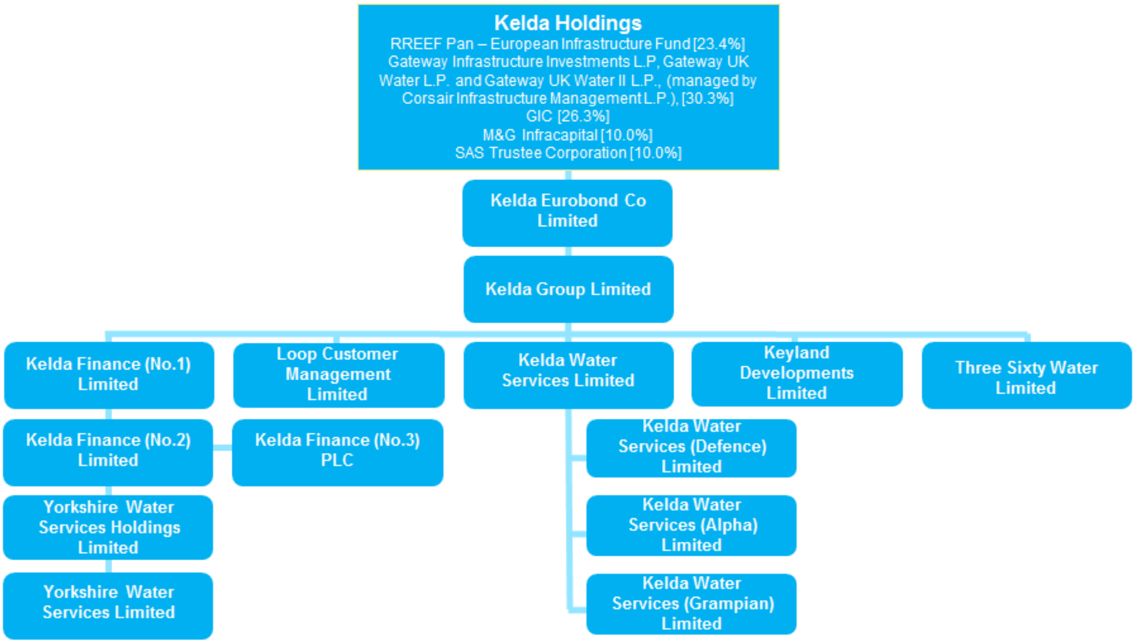
In accordance with the Ofwat Regulated Company Principles the board of Yorkshire Water has adopted its own "Board Leadership, Transparency and Governance Code" ("the Yorkshire Water Code") which it has published on its website. The Yorkshire Water Code sets out how Yorkshire Water currently applies the Ofwat Principles and the time frame in which they will be fully adopted. An explanation of how Yorkshire Water applies the Ofwat Regulated Company Principles is provided in the Yorkshire Water Annual Report and Financial Statements for the year ended 31 March 2015.

In accordance with the Ofwat Holding Company Principles, the Board adopted its own Board Leadership, Transparency and Governance Code in January 2015, which it has published on its web-site ("the Holdings Code"). In addition to describing how the Board of the Group and its committees discharge their duties in respect of corporate governance, this report describes how the Group complies with the Holdings Code.

Group Structure

The structure of the Group and its principal operating subsidiaries is transparent and explained in a clear and simple way on the Group's web-site. Details of the Group's shareholders and capital structure are also published on the Group's web-site. The annual report and accounts of Yorkshire Water includes details of those Group companies which are incorporated overseas and the rationale for incorporation of those companies.

The simplified Group structure is set out below:



The Board of directors

Board Composition

The composition of the Board during the year ended 31 March 2016 was as follows:

Independent non-executives directors
Richard Parry-Jones – Chairman (resigned 31 May 2016)
Robert Davies – Independent non-executive director (resigned 29 April 2016)
Anthony Rabin – Independent non-executive director (interim Chairman from 31 May 2016, appointed Chairman on 9 September 2016)

Executive directors
Richard Flint – Chief Executive
Liz Barber – Director of Finance, Regulation and Markets

Shareholder non-executive directors
Scott Auty – SAS Trustee
Stuart Baldwin – GIC (resigned 29 September 2015)
Andrew Dench – GIC (appointed 30 September 2015)
Paul Barr – GIC
Vicky Chan – Corsair
Holly Koeppel – Corsair

Michael Osborne – Corsair
Jane Seto – RREEF
Aparna Narain – RREEF
Milton Fernandes – M & G Infracapital

Alternative non-executive directors
Sara Leong – Alternate for Scott Auty (SAS Trustee)
Jean Daigneault – Alternate for Michael Osborne (Corsair)
Antonio Herrera – Alternate for Vicky Chan (Corsair)
Nikolaus Roessner – Alternate for Milton Fernandes (M & G Infracapital) (appointed 24 March 2016)
Mark Chladek – Alternate for Milton Fernandes (M & G Infracapital) (resigned 24 March 2016)

Each of the directors, except for Anthony Rabin and Robert Davies, served on the board of the Company's subsidiary, Kelda Eurobond Co Ltd. Richard Parry-Jones, Richard Flint, Liz Barber and Anthony Rabin are members of the board of Yorkshire Water. Richard Flint and Liz Barber also hold directorships within other Kelda Group companies.

On 29 September 2015 Stuart Baldwin stepped down from the Board. On 30 September Andrew Dench was appointed as a director.

The biographies of the Board can be found on pages 71-75.

The Board held six scheduled meetings during the year. Additional meetings were held where it was considered appropriate or where business needs required. The Board has a schedule of matters reserved for its decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Group.

In the matters reserved to the Board the principle is made clear that the Group must not act in a way which would prevent Yorkshire Water from complying with its Instrument of Appointment and the Water Industry Act and any other requirements of the relevant regulatory regime. This accords with provisions contained within the shareholders' agreement, to which the Company is a party. The directors remain mindful of their duty to ensure that this requirement is met in their consideration of any matters pertaining to Yorkshire Water and indeed the Kelda Group as a whole.

On appointment each director receives a full induction and briefing regarding their duties as directors, the operation of the Group and its governance. The induction process includes a briefing on the duties and obligations of a water and sewerage undertaker with specific reference to the Condition P requirements imposed on an "Ultimate Controller" under the Instrument of Appointment of Yorkshire Water.

The Board intends to continue to ensure that the Group refrains from any action which would cause Yorkshire Water to breach any of its obligations and to provide it with all such information as may be necessary for it to comply with its licence. In accordance with Condition P of its licence, the Board of Yorkshire Water contains at least three independent non-executive directors who are "persons of standing with relevant experience" and who "collectively have connections with and knowledge within which" the Company holds its appointment, and "an understanding of the interests of the customers of the Company and how these can be respected and protected". The Board expects that position to be maintained by the Board of Yorkshire Water as the appointments of those directors come to their term.

The Board provides the Board of Yorkshire Water with such information as it reasonably requires about the activities of the wider Kelda Group. It also expects to continue to support Yorkshire Water, to the extent required, in operating in a sustainable way (including making long-term decisions) in line with the long-term nature of the water sector.

The Chairman of the Board provides regular updates to the Board of Yorkshire Water on activities in the wider Kelda Group. The Board does not consider that there are currently any issues at the Kelda Group level that may materially impact on Yorkshire Water.

As set out in the Annual Report and Financial Statements of Yorkshire Water, a number of steps have been taken by Yorkshire Water to ensure full compliance with the Ofwat Regulated Company Principles. The Group expects to continue to support Yorkshire Water, to the extent required and applicable, in complying with the Ofwat Regulated Company Principles.

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

The matters reserved to the Board of Yorkshire Water are explained in the Annual Report and Financial Statements of Yorkshire Water.

During the year the Board received detailed monthly reports prepared by management on the Group's operations. In addition to those monthly reports the following matters of significance were considered by the Board;

- Approval of the Group's business plan;
- Review and approval of Group financial position;
- Kelda Water Services operations;
- The external board evaluation process and results;
- The implementation of Water Act 2014 and non-household retail strategy;
- Group health and safety strategy and performance; and
- The impact of the December 2015 floods.

Board Effectiveness and roles

The Board is satisfied that it acts independently and that both the Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively.

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

The roles of the Chairman and Chief Executive are separate and were held during the year by Richard Parry-Jones and Richard Flint respectively.

Directors' training and development

All new directors receive an induction and training on joining the Board, including information about the Group and their responsibilities, the duties and obligations of a water and sewerage undertaker, meetings with key managers, and visits to the Group's operations. The Chairman continued a number of site visits throughout the Yorkshire region and met on a number of occasions with members of the Yorkshire Water management team, both individually and as a group. He has held individual meetings with each of the other non-executive directors and with the Group's shareholders. He has also received relevant information about the Group's operations and about the water industry in general.

Briefings are provided to directors on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and subsequent to, their appointment to meet their particular requirements. There is an agreed procedure for directors to take independent professional advice at the Group's expense in furtherance of their duties in relation to board or committee matters.

Directors have access to the Group Company Secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The Company has directors' and officers' liability insurance in place.

The Chairman keeps under review and agrees the training and development needs of the directors which is organised by the Group Company Secretary.

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

Board diversity

As part of its Group Diversity and Inclusion policy the Group supports a diverse and inclusive workforce. As a result it seeks to improve equality of opportunity at all levels within the Group. The Board has set itself the target of ensuring that is has at least 25% female board representation in 2020 and will be reviewing progress towards continued achievement and surpassing of that target on an annual basis. The Board has determined that a capability and experience matrix should be in place for all board members to ensure that the key skills, knowledge and experience are provided by all board members, including in particular corporate responsibility and sustainability. All board members completed the Group's e-learning diversity and inclusion training during the financial year. The Group's Diversity and Inclusion policy is available on the website at http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf .

Gender, ethnicity and age statistics are provided in the Directors Report on page 77.

Board and committee attendance

There are three standing committees of the Board as at the year end which are as follows:

1. Executive Committee
2. Audit Committee
3. Investment Committee

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

In March 2015, the Remuneration and Nomination Committees of the Board ceased to operate as they were no longer required following the establishment of a Remuneration Committee and Nomination Committee of the Board of Yorkshire Water.

The table below shows the number of meetings of the Board, its standing committees, Executive and Audit attended by each director as a member of that Board or committee, out of possible attendances. There were no scheduled meetings of the Investment Committee or the Executive Committee held during the year. There has been no attendance from the Alternate Directors in the year.

	Board	Audit
Scott Auty	6/6	4/5
Stuart Baldwin	1/2	-
Liz Barber	6/6	-
Paul Barr	6/6	4/5
Vicky Chan	5/6	-
Robert Davies	5/6	-
Andrew Dench	4/4	-
Milton Fernandes	6/6	4/5
Richard Flint	6/6	-
Holly Keoppel	4/6	-
Aparna Narain	6/6	4/5
Michael Osborne	6/6	3/5
Richard Parry-Jones	5/6	-
Anthony Rabin	6/6	5/5
Jane Seto	4/6	-

Executive committee

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

Audit Committee

The Audit Committee at the end of the year was made up of six non-executive directors, namely Anthony Rabin, Paul Barr, Michael Osborne, Milton Fernandes, Aparna Narain and Scott Auty. The Chairman of the Committee during the year was Anthony Rabin.

Liz Barber, Group Director of Finance, Regulation and Markets, the external auditors, the Group head of strategy, risk & assurance, the Group internal audit manager and the Group Company Secretary attend all meetings.

The Audit Committee met five times during the reporting year. The Committee Chairman reports on the activities of the Committee to the board meeting immediately following each committee meeting.

The duties of the Audit Committee and the activities in the year are covered in the Audit Committee report set out on pages 45 to 50.

Investment Committee

The Investment Committee was not required to meet during the year.

Corporate Responsibility Committee

The Group has a Corporate Responsibility Committee. Martin Havenhand and Kathryn Pinnock, who are independent non-executive directors of Yorkshire Water, sit on the Corporate Responsibility Committee. The Chairman also sits on this committee which is chaired by Richard Flint. The Group Company Secretary attends all meetings. Other directors and Group employees attend by invitation. During the reporting year this committee met on three occasions.

The Corporate Responsibility Committee's key tasks include:

- Commenting on the Group's integrated annual reports;
- The creation of a culture of environmental and corporate responsibility awareness within the Group;
- Liaising with and directing activity of other relevant Group committees;
- Advising on opportunities for partnerships to further the Group's corporate responsibility objective;
- Benchmarking performance of the Group against leading comparators; and
- Monitoring the work of and receiving reports from the Environmental Advisory Panel.

In carrying out its duties the Committee has a particular focus on the Group's activities.

Board evaluation

An external evaluation of board effectiveness was formally conducted during the reporting year by Linstock, who hold no other connections to the Company. The evaluation addressed individual contributions to the Board, the role of the Board, board and committee structures and composition, board dynamics and relationships, board processes and board strategy. The evaluation was conducted via completion of a confidential questionnaire and the results were presented and discussed by the Board on 24 March 2016.

Areas of focus for the Board following the evaluation are strategy, regulatory change, greater interaction with the Yorkshire Water Board and succession planning.

Conflicts of interest

There is a clear process for the disclosure of any potential conflicts by the directors to the Board and if appropriate for the authorisation of such conflicts. All of the directors are required to notify the Group Company Secretary if they believe a conflict situation might arise and directors are required to consider any conflicts at each Board meeting. The directors do not consider that during the financial year any actual conflicts of interest have arisen between the roles of the directors as directors of the Group and any other roles which they may hold.

Audit Committee

The role of the Audit Committee is to review the integrity of the Annual Report and Financial Statements, including the operational, financial and accounting policy and practices, and to monitor the system of internal control. To achieve this, the Committee monitors the relevance and the quality of assurance provided by the internal and external audit service providers and reviews the impact of key findings from audit reports. It also reviews the arrangements by which employees can raise, in confidence, concerns about potential improprieties. It may in addition be asked by the Board to review other topics.

During 2015/16 the regular business of the Audit Committee included consideration of reports on financial statements, audit planning, the activities of the Risk and Internal Audit team and its key findings, and the consideration of the operation of internal control processes.

The Committee reported to the Board that it had discharged its responsibilities during the year. The key tasks undertaken to achieve this were:

- reviewing the Group's financial statements, including an assessment of the appropriateness of the key judgements supporting them;
- assessing the implications of the report from the external auditor on the Group's regulatory performance;
- considering the effectiveness of the Group's risk management system, including a risk identification session;
- assessing the Group's system of internal control through the receipt of quarterly updates from Internal Audit as well as individual reports addressing specific issues;
- overseeing the Group's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence, performance and effectiveness of the external auditors;
- conducting a third party external review of the effectiveness of the internal audit function, monitoring the implementation of the agreed actions;
- approving the 2015/16 Group Internal Audit charter and audit plan;
- reviewing the assurance over the delivery of the requirements of the Water Act, particularly the Group's readiness for non-household retail competition;
- reviewing the Group's Whistleblowing Policy.

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

The Audit Committee has advised the Board that this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Group has a policy (Whistleblowing Policy) for disclosure of malpractice which applies to the Group, and the Committee reviewed the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Independence and effectiveness of the external auditor

The independence, objectivity and effectiveness of the external auditor are considered on a regular basis and take into consideration relevant UK professional and regulatory requirements.

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

The key features of the 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 Group and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; and
- specific restrictions and procedures in relation to the allocation of non-audit work to the external auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of the work, or the approval of the committee. At each of its meetings the Committee receives a report of the fees paid to the auditor in all capacities and the amounts of any future services which have been contracted, or where a written proposal has been submitted. In addition, the external auditor is required to report any contingent fee arrangements for non-audit services.

The split between audit and non-audit fees and a description of the non-audit fees for the year to 31 March 2016 appears in note 3 to the statutory financial statements. The amount and nature of non-audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

The Group considers the award of non-audit work on a case by case basis. During the year to 31 March 2016 the external auditor carried out certain items of non-audit work on behalf of the Company. The fees in question are not considered to be material. In the event that the Company proposes to award any non-audit work which the external auditor is qualified to carry out, and which would be material in terms of the level of fees, then a competitive tender process for that work would be conducted.

The external auditor was appointed in 2007 when the last audit tender was conducted, for the year ended 31 March 2008. The Committee will continue to review the auditor appointment annually, acknowledging the Code's recommendation for FTSE 350 companies, to put the external audit contract out to tender at least every 10 years. The Committee meets with the external auditors without the presence of executive management when considered necessary or appropriate to do so and in any event annually.

To fulfil its responsibilities in respect of considering the effectiveness of the external auditors the Audit Committee has reviewed:

- the scope of work, areas of responsibility and terms in the external audit engagement letter;
- the audit plan as presented by the external auditors for the Company and Group;
- the detailed findings of the audit as reported to the Committee and discussed any areas of focus that have been identified; and
- the findings from an internal survey completed by the Board and key management about the conduct and quality of the audit.

The Audit Committee, having considered all available information, is satisfied with the effectiveness and independence of the external auditors.

Significant issues considered by the Audit Committee in relation to the 2015/16 financial statements

During the year the Audit Committee considered the on-going appropriateness of the Group's accounting policies. The significant financial issues/judgements in relation to the Group's financial statements and disclosures have been discussed, with input from management and the external auditor. This has included:

Going concern

The financial statements have been prepared on a going concern basis. The directors considered the Group's business activities, factors likely to affect its future development, financial position and risk management in assessing its ability to continue as a going concern. The factors considered included the level of EBITDA in year, Cashflow forecasts and additional funding requirements.

Detailed forecasts have been produced covering AMP6 which have been approved by the Board. The forecasts, combined with the information above, support the going concern assessment. It is therefore justifiable to state that the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Assumptions relating to the retirement benefit deficit

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the pension obligation.

The Group determines the appropriate discount rate at the end of each year. This is the 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, consideration is given to the market yields at the reporting date on high quality corporate bonds.

The key assumptions for pension obligations have been derived on a consistent basis with the prior year, based in part on current market conditions.

Management have liaised with the Group's pension's advisors, Mercers, in arriving at the assumptions and compared the data to industry trends. Based on the latest publically available information, the Group is not a significant outlier in comparison to other companies in the industry on any of these assumptions and it has been concluded that the assumptions are appropriate.

Infrastructure assets
The Group has adopted a policy of revaluing its infrastructure assets. KPMG have been engaged to update the valuation at the year end, based on the value in use (VIU) of the assets. VIU is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The conclusion was reached that by applying this methodology and assumptions the valuation was within 1% of the carrying value of fixed assets and as such no revaluation adjustment to infrastructure assets is required in the current year.

Goodwill impairment
IAS 36 requires that intangible assets, such as goodwill, with indefinite useful lives be reviewed for impairment annually. As is common practice in the water industry, the Group uses the net present value of 25 years of operational cash flows (including outperformance) plus discounted RCV as a terminal value to arrive at the investment value or approximation of what a third party would pay for the business.

During the 2015/16 financial year there has been a significant review, with equity investors, over the long term assumptions held in the valuation model. The most significant of these are due to external factors and are now in line with the routine valuations of the Group performed by management. Management's report on key assumptions with respect to goodwill impairment was reviewed and it concluded with a write-down to goodwill of £400m on a total goodwill balance of £1,800.3m. See note 10 for further details.

Fair value of derivative financial instruments
Accounting standards require that all financial instruments are held in the balance sheet at fair value. IFRS 13 was adopted when the standard became applicable to the group, and requires that when arriving at the fair value of the financial instruments the credit position of the Group is taken into account.

Provision for doubtful debts
Due to the nature of the business the provisioning of doubtful debts is by necessity based on subjective judgement of the recoverability of debtor balances. The policy considers the aging of the debtors and historical experience on recoverability. The Committee have reviewed management's report setting out the assumptions used to calculate the provision for doubtful debts and it was concluded that the policy continues to be appropriate. A provision of £29.0m has been created at 31 March 2016 which is consistent with the £28.0m provision at 31 March 2015.

Exception item - write off of operational assets due to floods
In December 2015 Yorkshire Water experienced flooding across a number of sites which resulted in significant damage to operational assets. Following management assessment, included within the financial statements is an asset impairment value of £35m. This has been netted off against an insurance payment of £10.0m and operational costs of £1.5m, creating a net £26.5m exceptional item.

The principal risks considered by the Board are covered in the strategic report on page 35.

Internal control and risk management

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

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

In 2015/16 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 and Company are identified through the a clear risk assessment matrix, and recorded in the strategic 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;
- individual business units and KMT meets quarterly to review the Group's strategic risk position in detail and carry out 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 of Yorkshire Water;
- the internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process with an update on the risk and assurance position provided to each Audit Committee meeting.

During the reporting year, the Committee reviewed the effectiveness of the risk management process, the effectiveness of internal audit and the effectiveness of the external audit process on behalf of the Group. The Committee has also separately considered the control environment and control activities which the Board can rely on for disclosures in this report.

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

The Audit Committee confirms that it has reviewed the system of internal control. It has received reports from management 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' Remuneration Report

Annual Statement by the Chair of the Remuneration Committee

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2016. The Committee comprised of all of the non-executive directors and was chaired by a non-executive director, Ray O'Toole, in line with the Ofwat Principles. The terms of reference of the Committee are available on request from the Company Secretary and can be accessed on the corporate governance section of the Yorkshire Water website at: http://www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure-yorkshire-water

The activities of the Kelda Group Remuneration Committee were undertaken by the Yorkshire Water Remuneration Committee from March 2015. This report therefore covers the work undertaken by the Yorkshire Water Remuneration Committee in the year.

During the year the Committee met four times and amongst other things carried out the following activities:

- assessed the rules of the Kelda Group Long Term Incentive Plan (LTIP) established in July 2008 confirming its continued application and suitability;
- considered the terms of and agreed the award of the 2015 LTIP in accordance with the scheme rules;
- approved the targets for the 2015/16 annual incentive plan;
- assessed the achievement of targets for the 2015/16 annual incentive plan;
- amended the 2013 and 2014 LTIP performance conditions in accordance with the scheme rules; and
- agreed the vesting of the 2012 LTIP award at 75%

The salaries for managers on average increased by 1.73% with effect from 1 April 2015 compared to a general increase of salaries in the Group of 2.29%. The basic salary of the Chief Executive increased by 3.2% from £387,600 to £400,000 and the salary of the Group Director of Finance, Regulation and Markets rose by 1% from £276,019 to £278,779.

Annual bonuses are based on the achievements of targets measured across the Group's SBOs as described in the body of this report. Bonus payments of 60% for the Chief Executive and 60.5% for the Group Director of Finance, Regulation and Markets were awarded for 2015/16 (the maximum being 100% of salary) reflecting the overall performance achieved by the Group.

The Chief Executive and the Director of Finance, Regulation and Markets were executive directors of Kelda Holdings Limited during 2015/16 and their remuneration is shown in full however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged out of the regulated business. Details of the salary increases and bonuses for the rest of the Board are set out in detail.

The LTIP awarded in April 2012 was due to vest in this financial year subject to achievement of the Performance Conditions for that award. The 2012 LTIP vested at 75% based on achievement of the Performance Conditions of Service Incentive Mechanism (SIM), Cash available for distributions and Serviceability.

The LTIP awarded in April 2013 is due to vest in 2016. Based on achievement of Performance Conditions of Service Incentive Mechanism (SIM), Cash available for distributions and Serviceability, the vesting of the 2013 LTIP scheme at 50% was determined by the Committee on 28 June 2016.

Ray O' Toole
Chair of the Remuneration Committee

Introduction

During the year ended 31 March 2016 the Committee comprised the Chairman of Yorkshire Water and its four independent non-executive directors. Richard Flint, Chief Executive, Pamela Doherty, Director of Human Resources and Health & Safety, and subsequently Shauna Purdey, Interim Director of Human Resources and Chantal Forrest the Group Company Secretary attended all meetings. Liz Barber, Group Director of Finance, Regulation and Markets attended by invitation. Pamela Doherty and Shauna Purdey acted as advisers to the Committee and external advisers attended on an ad hoc basis to advise the Committee as necessary. During the year ended 31 March 2016 the Committee was chaired by Ray O'Toole.

The table below shows the number of meetings of the Committee attended by each Group director out of possible attendances.

	Rem Com
Richard Parry - Jones	4/4
Ray O' Toole	4/4
Anthony Rabin	3/4
Kath Pinnock	4/4

For guidance in recommending remuneration packages, the Committee used internal research, to support the objective of ensuring competitive and sustainable remuneration.

In 2015/16, New Bridge Street were not required to attend the Committee. However they provided remuneration benchmark data to assist management in considering salary levels of the executives and senior management. In 2015/16 they were paid a fee of £4,200. The Group did not use New Bridge Street Consultants in any other capacity.

The Committee determined the remuneration and conditions of employment of the executive directors and the next most senior category of executives. It also operated the Group's long term incentive plan. In determining the remuneration of executive directors and other senior executives, the Committee also takes into account the level of remuneration and pay awards made generally to employees of the Group. The design of performance–related remuneration for executive directors and other senior management of the Group took into account the provisions of Schedule D of the UK Corporate Governance Code.

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

In recommending remuneration packages, the Committee followed the principle of recognition of the individual's contribution to the business. The Group intends that remuneration packages continue to be developed to enable executive directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, compared to relevant market and industry comparators and taking into account individual performance, responsibilities and experience. Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards. Further details of the proportions are included in the sections below and in the directors' emoluments table on page 68. The design of the total remuneration package is intended to achieve a weighting of each component to ensure that above average remuneration is available through performance related elements rather than base salary.

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

Statement of Remuneration Policy

Remuneration Policy in 2016/17

The overall remuneration policy for executives remains unchanged for 2016/17. The structure of the annual incentive scheme is unchanged. However, clear targets have been determined based on the approved 5 year business plan which takes effect from 2015/16 and these will be material in determining actual performance and therefore any bonus payable.

The relevant measures and targets for the long term incentive scheme for 2016 have been determined.

The LTIP scheme continues to consider three performance conditions, Service Incentive Mechanism (SIM), Serviceability and Cash Available for Distributions. The SIM performance condition is based on actual performance against business plan with a further incentive to be the leader in SIM when compared to other water and sewerage companies. The performance conditions are set out below on pages 56 to 57.

During the year the Committee determined all aspects of remuneration for executive directors. In addition, the Committee retained discretion over the application of performance related pay policy.

The policy for determining the remuneration package for a new executive director is detailed below:

- basic pay will be determined to a maximum of the median market salary for the role when benchmarked across the Water Industry and/or Utilities;
- a short-term review of basic pay may be agreed on appointment subject to performance, e.g. following up to 12 months in the role;
- the annual incentive and LTIP schemes will be applied subject to approval of the committee; and
- all other benefits will apply in accordance with the contractual and non-contractual terms of the role.

The current remuneration package for directors and other senior executives comprises the elements set out in the table below which also sets out how the policy on the package is currently proposed to be implemented in the future.

Board executive directors

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2015/16
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 100% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long term incentive	To ensure focus on the long term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package and incentivises outperformance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 200% of base salary. Award vests following the three year period subject to performance conditions. Incentive payments are non-pensionable.	No changes to policy.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme - Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a company contribution into the defined contribution stakeholder scheme of a maximum of 30% or a cash allowance of up to 25% or a combination of both of the above approaches providing this is cost neutral to the company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is based on individual circumstances.	No changes to policy.

Other senior executives

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2015/16
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 70% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long term incentive	To ensure focus on the long term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package and incentivises outperformance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 150% of base salary. Award vests following the three year period subject to performance conditions. Incentive payments are non-pensionable.	No changes to policy.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme - Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a company contribution into the defined contribution stakeholder scheme of a maximum of 24% or a cash allowance of up to 20% or a combination of both of the above approaches providing this is cost neutral to the company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is subject to a maximum of lease costs of £5,904 pa (reduced from £6,780 due to a move from 3 year to 4 year lease) or cash allowance of £7,500 pa.	No changes to policy.

Independent non-executive directors (INEDs)

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2015/16
Fee	To provide competitive pay to enable attraction and retention.	Reviewed when required subject to market trends.	Fee for the Chairman was £275,000 pa. Current fee for INEDs is £30,000 pa. Any increases are determined by the Remuneration Committee.	No changes to policy.

Annual salary and benefits

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

It is the intention of the Committee to hold basic pay at market median across the sector. A significant proportion of total remuneration is performance related to incentivise upper quartile performance.

Annual incentive plan

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

During the 2015/16 financial year, the Chief Executive and the Director of Finance, Regulation and Markets had the opportunity to earn an annual incentive award of up to 100% of their salary representing their Group roles. Each other executive director on the Board had the opportunity to earn an annual incentive award of up to 70% of their salary. Any bonus payment is made in June based on performance in the year ending on the preceding 31 March.

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

In April 2015 the Committee reviewed the annual incentive scheme measures to ensure alignment with the 5 year business plan 2015-2020. The use of discretion was also clarified. Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March as follows:

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal / individual objectives set at the start of the financial year;
- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the Group's SBO's. The same

corporate objectives were shared by all directors. For the financial year 2015/16 these are set out in the table below with the percentage payable.

Annual incentive plan *(continued)*

Strategic Theme	Measure	% of corporate bonus awarded (% of overall bonus)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	40% (20% of max)
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	12% (6% of max)
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	12% (6% of max)
Safe water	1. Mean zonal compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	12% (6% of max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No of WWTW's failing numeric consent *	12% (6% of max)
Sustainable resources	1. Renewable energy generation GWh 2. GHG emissions tCO2e	12% (6% of max)

Annual incentive scheme targets and actual performance 2015/16

Theme	Measure	Bus Plan 15/16	Actual 15/16	% of bonus to be paid (max)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	£594.3m £568.6m £349.1m Zero	£585.5m £564.9m £251.9m Zero	**20%** (40%)
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	4.44 118.8 10.0 7.0	4.39 119.9 12.0 6.9	**10%** (12%)
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	13.63 mins 297.1 1,255	12.13 mins 289.3 1,255	**10%** (12%)
Safe water	1. Mean zonal compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	99.960 8.0 8.4 1,877	99.954 10.7 12.8 1,812	**0%** (12%)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No of WWTW's failing numeric consent *	8 237 0	6 189 2	**6%** (12%)
Sustainable resources	1. Renewable energy generation GWh 2. GHG emissions tCO2e	75.6 356,000	65.5 347,000	**10%** (12%)
TOTAL				56%
*** Calendar year measures**	**46 % of corporate bonus to be paid** ***At the committee's discretion, as per the scheme rules, a further 10% reduction was applied for safety performance during 2015/16.*** ***The above targets and actuals relate to the reporting criteria of the year 2015/16. There will be differences between the audited actuals and those stated above due to changes in accounting standards or revised regulatory reporting requirements.***			

Considering the actual Company performance as detailed (which makes up 50% of the total annual incentive), and following a review of the delivery of individual objectives and contribution, the following total awards for 2015/16 were determined by the Committee.

	Max. Bonus %	*Bonus for 2015/16 %*	*Bonus for 2015/16 £*
Liz Barber	100	60.5	£168,661
Richard Flint	100	60.0	£240,000

These payments were approved by the Committee on 23 March 2016 and were paid in June 2016.

Richard Flint and Liz Barber were executive directors of Kelda Holdings Limited during 2015/16. Their bonuses are shown in full, however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged from the regulated business.

The annual incentive scheme policy is unchanged for 2015/16. A range of performance measures and targets have been agreed at the start of the year across all SBO's. The measures and targets for the Group element of the annual incentive scheme are detailed in the table below.

Annual incentive scheme targets for 2016/17

* Media score is under review and may change in year

Theme	Measure	Bus Plan to 31/03/17	% of corporate bonus awarded (% of overall bonus)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	** ** ** Zero	**40%** (20% of max)
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	4.44 110.8 * 7.0	**12%** (6% of max)
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	12.81 mins 297.1 1,255	**12%** (6% of max)
Safe water	1. Mean zonal compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	99.960 7.1 7.9 1,898	**12%** (6% of max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No of WWTW's failing numeric consent *	6 224 0	**12%** (6% of max)
Sustainable resources	1. Renewable energy generation GWh 2. GHG emissions tCO2e	74.97 342,000	**12%** (6% of max)

** Not disclosed on the basis of commercial and regulatory sensitivity

Long term incentive plan (LTIP)

Under the plan, executive directors may receive, at the discretion of the Remuneration Committee, a conditional monetary award. The plan provides for a cash award based on a percentage of salary. For the Chief Executive and the Director of Finance, Regulation and Markets this is a value of up to 200% of base salary. For each other executive director on the Board this is a value of up to 150% of base salary.

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

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

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

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

No benefits under the plan are pensionable.

A summary of the LTIP performance conditions and relative values for the 2015 Award is detailed in the table below followed by a more detailed description of each performance condition.

Performance condition	Description	Overall weighting
Step 1 – Ofwat comparative measure (SIM)	Performance in customer service is used as a gateway.	Gateway(go/no-go depending on performance)
Step 2 – Cash available for distributions	On target performance equals 70% of award. Incentivises outperformance. 90% of CAFD must be achieved to vest LTIP.	Range – 0% to 100% subject to step 1 above.
Step 3 – Serviceability	Potential for reduced LTIP award if not stable or improving on each asset group.	Range – 0% to 100% subject to steps 1 and 2 above.
Step 4 – SIM bonus	Further 10% of LTIP award available if ranked 1st in SIM.	Range – value of award achieved at step 3 x 110%.

Step 1 - Ofwat Performance Condition

The SIM Performance Condition is met only if the Yorkshire Water's SIM performance for 2018/19 is at or above 86 points. If SIM Performance is below 85 points in 2018/19 then the SIM Performance Condition shall not be met and the 2015 Award shall not vest. If SIM performance is 86 points or higher, the Award shall vest in accordance with the following table.

Performance in 2018/19	Vesting
Less than 86 points	Gateway is closed; therefore the LTIP will not vest.
86 points and less than 87 points	Gateway is open, but overall vesting is capped to maximum of 50% of award once the calculation of performance conditions have been carried out
87 points and less than 89 points	Gateway is open, but overall vesting is capped to maximum of 75% of award once the calculation of all performance conditions have been carried out
89 points or higher	Gateway is open and the LTIP will vest in accordance with the remaining performance conditions. No cap will be applied.

The table above is based on the Yorkshire Water SIM Business Plan target of 87 points in 2018/19.

Step 2 - Cashflow Performance Condition

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

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

The targets for this Condition are not disclosed on the basis of commercial sensitivity.

Step 3 – Stability and Reliability Performance Condition

The Stability and Reliability Performance Condition is that 25% of the percentage determined under Step 2 shall vest in respect of the awards for each Ofwat serviceability measure as assessed in the Ofwat Report (or where replaced by such regulatory self reporting procedures as assessed by those regulatory self reporting procedures for performance in the financial year 2014/15 for the 2012 award, 2015/16 for the 2013 award, 2016/17 for the 2014 award, 2017/18 for the 2015 award and 2018/19 for the 2016 award) as "stable" or "improving".

Step 4 – SIM Bonus

In the event that the Ofwat Ranking of Yorkshire Water is 1st amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2018/19) then a further 10% will be added to the amount to vest in respect of the 2016 award, i.e. the amount to vest would be 110% of the value derived after step 3.

In the event that the Ofwat Ranking of Yorkshire Water is 2nd or lower amongst the Ofwat Comparator Group for the OFWAT SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2018/19) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

The vesting of the 2013 LTIP scheme was determined by the Committee on 28 June 2016 as follows.

2013 LTIP	**Performance conditions**	**Date of award**	**End of performance period**	**Measure achieved**	**Base value of award**	**Value of award vested**
Richard Flint	See above	25 April 2013	31 March 2016	SIM – achieved 82.5 points. Cash Available for Distribution – achieved 101.3% of target. Serviceability – achieved Stable in each of the four asset groups. Overall vesting of 50%.	£760,000	£380,000
Liz Barber	See above	25 April 2013	31 March 2016		£541,214	£270,607

Total remuneration

A summary of executive directors' remuneration elements as a percentage of salary is detailed in the table below

Chief Executive and Director of Finance Regulation and Markets

Component of remuneration	2015/16		2016/17	
	Value (% of salary)		Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary	100%		100%	
Annual incentive	85%	100%	85%	100%
Long term incentive	140%	200%	140%	200%
Pension*	14.6%		14.6%	
Total remuneration as % of salary	339.6%	414.6%	339.6%	414.6%
Variable pay (bonus and LTIP as a % of total)	66%	72%	66%	72%
Long term pay (LTIP and pension as a % of total)	46%	52%	46%	52%

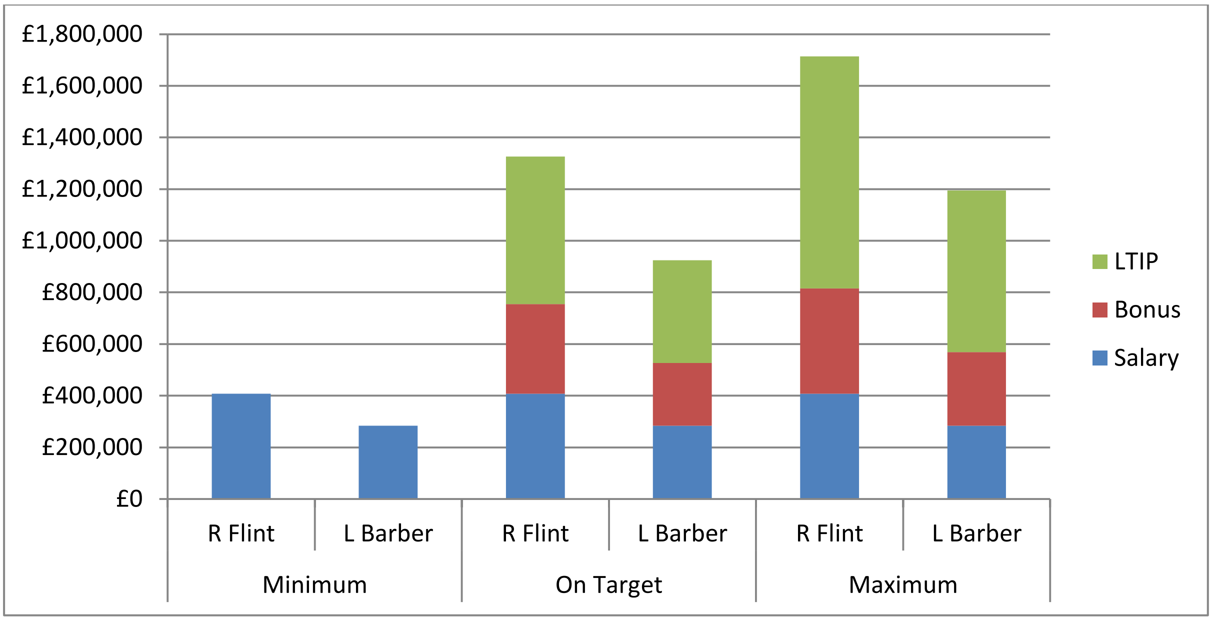
* Pension scheme categories - KGPP employer contribution 14.6% / stakeholder employer contribution 30% or cash alternative 25%.

Other executive directors

Component of remuneration	2015/16		2016/17	
	Value (% of salary)		Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary	100%		100%	
Annual incentive	60%	70%	60%	70%
Long term incentive	105%	150%	105%	150%
Pension*	14.6%		14.6%	
Total remuneration as % of salary	279.6%	334.6%	279.6%	334.6%
Variable pay (bonus and LTIP as a % of total)	59%	66%	59%	66%
Long term pay (LTIP and pension as a % of total)	43%	49%	43%	49%

*Pension scheme categories - KGPP employer contribution 14.6% / stakeholder employer contribution 30% or cash alternative 25%.

For the executive directors only the bar charts below provide an indication of the level of remuneration that would be received by the director in accordance with the directors' remuneration policy in the year 2016/17 on the basis of performance levels that achieve fixed pay only, on–target reward and maximum reward. The percentages for on target and maximum reward are set out in the tables above.



A significant proportion of executive remuneration is performance related and therefore "at risk". All colleagues in the Group participate in a performance related pay scheme, the quantum of which is appropriate for the level of role and ability to influence company performance.

Senior managers (44 colleagues 1st April 2016) participate in the LTIP. All managers participate in an annual incentive scheme with potential bonuses of up to 10, 15 or 30% of salary depending on seniority. All other colleagues participate in a quarterly bonus scheme, with payments which vary depending on company performance in that quarter.

Pension Scheme eligibility is consistent for all colleagues. All new colleagues have the option (subject to auto-enrolment provisions) to join the Group's stakeholder scheme which is a defined contribution scheme.

Non-executive directors

The Chairman of the Board and the other non-executives are paid an annual fee in respect of their roles on the Board of Kelda Holdings Limited and any other Group companies where applicable. The fees are set out in the table of directors emoluments. Richard Parry-Jones was appointed as a non-executive director from 1 January 2015 to 31 May 2016 as Chair of the Group, and the Kelda Group, from 25 March 2015 until 31 May 2016. His annual fee for services to the Group was £275,000.

Anthony Rabin and Robert Davies were independent non-executive directors in the Group for 2015/16 and were paid a fee of £75,000 and £45,000 respectively per annum. Anthony Rabin who is also a director of Yorkshire Water Services Limited also received an additional fee of £6,000 per annum as Chairman of the Audit Committee.

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

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

Service contracts

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

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

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

Executive Directors

Richard Flint	11 November 2009
Liz Barber	30 April 2010

Non-Executive Directors

Richard Parry-Jones	1 January 2015 (resigned 31 May 2016)
Robert Davies	1 October 2012 (resigned 29 April 2016)
Anthony Rabin	1 September 2012 (interim Chairman)

The appointments of the non-executive directors originally took effect from the dates set out above for a period of two years in each case, subject to renewal.

At its meeting on 27 January 2016, following a recommendation made by the Nomination Committee the Board resolved that Anthony Rabin's term of appointment be extended for a further two year period to 31 July 2017.

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

Table of Directors' emoluments

Set out below is the amount earned by the directors in the year ended 31 March 2016 for their duties to the Group and any related party.

	Salary/ fees for the year ended 31 March 2016 £000	Taxable benefits for the year ended 31 March 2016 (see note 1) £000	Annual bonus for the year ended 31 March 2016 (see note 2) £000	LTIP for 3 year period ending 31 March 2016 (see note 3) £000	**Total emoluments for the year ended 31 March 2016 £000**	Total emoluments for the year ended 31 March 2015 £000	Pension Related benefits for the year ended 31 March 2016 (See Note 4 and separate table below) £000	**Total emoluments and pension related benefits for the year ended 31 March 2016 £000**
Executive directors								
Richard Flint	400	12	240	380	**1,032**	1,291	199	**1231**
Liz Barber	279	10	169	270	**728**	917	74	**802**
Non-executive directors								
Richard Parry-Jones	275	-	-	-	**275**	69	-	**275**
Robert Davies	45	-	-	-	**45**	45	-	**45**
Anthony Rabin	81	-	-	-	**81**	81	-	**81**
Total	1,080	22	409	650	**2,161**	2,403	273	**2,434**

Note 1 the benefits included in this column relate to the provision of a car or cash equivalent, car fuel or cash equivalent, healthcare.

Note 2 the annual bonus is for achievements in 2015/16 and this will be paid in 2016/17.

Note 3 The LTIP award is for the 3 year period to 31 March 2016 and this will be paid in 2016/17.

Note 4 The pensions figure for KGPP members for 2015/16 is calculated as the change in value of the pension, net of inflation, over the year less the employee's contributions and is subject to a minimum of zero. The pensions figure for Kelda Stakeholder+ members for 2015/16 is calculated as the contributions made on their behalf by the Group.

Richard Flint, Liz Barber, Richard Parry-Jones and Anthony Rabin were also directors of other group companies during 2015/16. Their emoluments are shown here in full however, the proportion of their time spent on activity other than for Kelda Holdings Limited is recharged to the relevant Group company.

Pension's information in respect of the Kelda Group Pension Plan

Richard Flint	Membership of the Kelda Group Pension Plan and unregistered arrangement, giving (from April 2013) pension of 1/40th of pensionable pay for each year plus additional lump sum based on 3/40th of Pensionable Pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63. Currently total pension is £122,329 p.a. plus additional lump sum of £87,713.

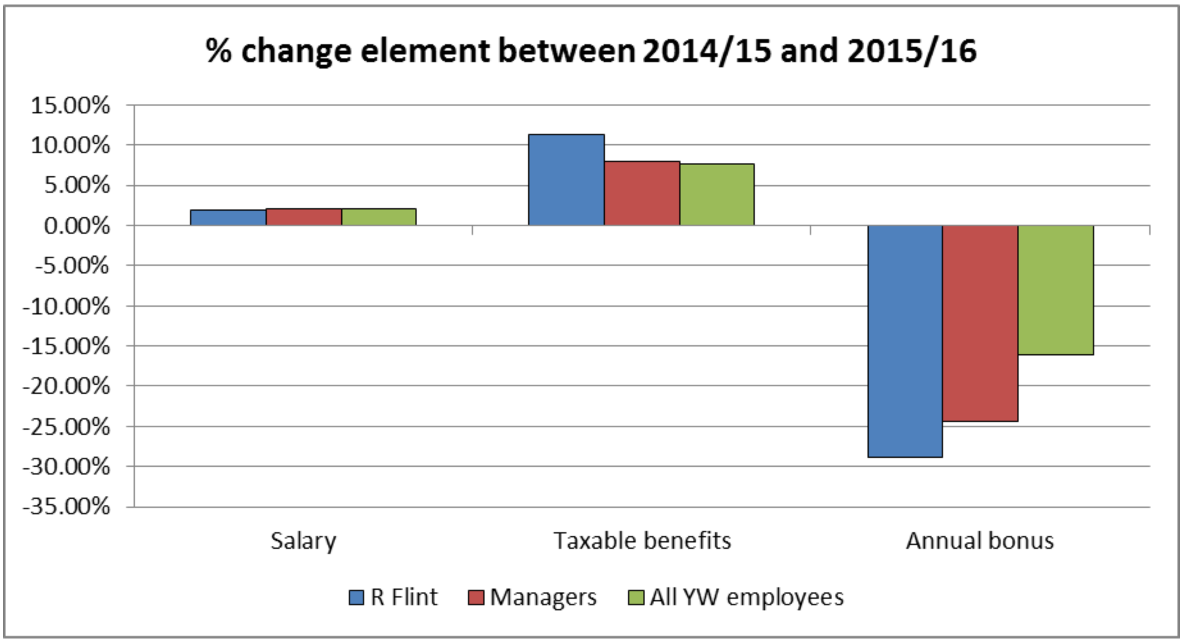
	Value of all pension related benefits accrued					
	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
Director undertaking role of Chief Executive*	£199,126	£184,025	£165,700	£197,909	£186,253	£322,837

*The value of all pension-related benefits for Richard Flint for the later six years is shown above. The figures shown are net of contributions paid by the Chief Executive, which were 6% p.a. of pensionable pay before the benefit changes which came into effect 1 April 2013 and 8.5% p.a. thereafter. These contributions were made by salary sacrifice.

Liz Barber was a member of the Kelda Stakeholder+ arrangement (Defined Contribution) scheme.

The table and chart below show the percentage change in salary, benefits and annual bonus earned between the year ended 31 March 2015 and the year ended 31 March 2016 for the Chief Executive compared to the average company manager and employee for each year.

	% change in element between 2014/15 and 2015/16		
	Salary	Taxable benefits	Annual bonus
R Flint	2.00%	11.38%	(28.83%)
Managers	2.03%	8.03%	(24.33%)
All employees	2.06%	7.73%	(16.16%)



Details for managers and all employees include employees who were employed at both 31 March 2015 and 31 March 2016 and are based on their salary at those two points.

Annual bonus relates to the bonus paid in that year. For managers, this bonus relates to the previous financial year but paid in June of the next financial year. For all other employees, this bonus relates to the payments received in the current financial year.

External appointments

Executive Directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they receive in connection with any approved non-executive appointments.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2016. The Directors' Report should be read in conjunction with the Strategic Report.

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

The Board of directors

Board Composition

The composition of the Board during the year ended 31 March 2016 was as follows:

Independent non-executives directors
Richard Parry-Jones – Chairman (resigned 31 May 2016)
Robert Davies – Independent non-executive director (resigned 29 April 2016)
Anthony Rabin – Independent non-executive director (interim Chairman)

Executive directors
Richard Flint – Chief Executive
Liz Barber – Director of Finance, Regulation and Markets

Shareholder non-executive directors
Scott Auty – SAS Trustee
Stuart Baldwin – GIC (resigned 29 September 2015)
Andrew Dench – GIC (appointed 30 September 2015)
Paul Barr – GIC
Vicky Chan – Corsair
Holly Koeppel – Corsair
Michael Osborne – Corsair
Jane Seto – RREEF
Aparna Narain – RREEF
Milton Fernandes – M & G Infracapital

Alternative non-executive directors
Sara Leong – Alternate for Scott Auty (SAS Trustee)
Jean Daigneault – Alternate for Michael Osborne (Corsair)
Antonio Herrera – Alternate for Vicky Chan (Corsair)
Nikolaus Roessner – Alternate for Milton Fernandes (M & G Infracapital) (appointed 24 March 2016)
Mark Chladek – Alternate for Milton Fernandes (M & G Infracapital) (resigned 24 March 2016)

Biographies

Richard Parry-Jones
Chairman of the Board from 25 March 2015 until 31 May 2016. During the year he was chair of the Nomination Committee. Richard was appointed to the Board on 1 January 2015. Richard has previously held roles at Ford Motor Company over a 40 year period including Group Vice-President, Global Product Development and Chief Technical Officer. Since his retirement, Richard has 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, at which he was non-executive Chairman from 2012 until June 2015. He also provides public policy advice to Governments in Westminster and Cardiff on topics ranging from Industrial Policy to Transport and Energy, and working with Universities to improve and promote teaching and research excellence in Engineering.

Anthony Rabin
Appointed to the Board as a non-executive director with effect from 1 August 2013 and to the role of Senior Independent Director on 25 March 2015. He was appointed as an independent non-executive director to the Kelda Holdings Board in July 2012. Anthony has previously held roles at Balfour Beatty plc, including as executive director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held a number of previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy). He is chair of the Audit Committee, the Senior Independent Director and following Richard Parry-Jones resignation on 31 May 2016 he has agreed to perform the role of interim Chairman from 1 June 2016. Anthony has been appointed Chairman with effect from 9 September 2016.

Richard Flint
Richard was appointed Chief Executive of Kelda Group and Yorkshire Water Services Ltd in April 2010. He is Chairman of Kelda Water Services and Keyland Developments and previously was the Chief Operating Officer of Yorkshire Water (2008-2010) and Director of Yorkshire Water's Water Business Unit (2003-2008). 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.

Elizabeth (Liz) Barber
Appointed as Director of Finance and Regulation on 24 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 holds two non-executive positions, she was appointed as a lay member of the Council and as trustee of Leeds University in 2013 and to the board of KCOM Group PLC in April 2015. Liz has also recently taken over as chair of the A4S Chief Financial Officers network.

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.

Scott Auty
Appointed to the board as a non-executive director on 10 December 2010. Scott is a director of Deutsche Asset and Wealth 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.

Stuart Baldwin
Appointed to the board as a non-executive director from 3 March 2008 until September 2015. Stuart is the Global Head of Infrastructure for GIC, Singapore's sovereign wealth fund. Stuart has overall responsibility for developing GIC's global infrastructure business. Prior to joining GIC in 2002, Stuart was director, Strategic Investments of SingTel, based in Singapore. From 1992-1999, he was at London-based strategy consultancy, The COBA Group. Stuart is currently also a non-executive director of Heathrow, the UK airports group, and TIGF, a French gas transmission and storage business.

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.

Milton Fernandes
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.

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. and Vantage Airports Group Ltd. 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.

Aparna Narain
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.

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.

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.

Robert (Bob) Davies
Robert was appointed to the Board as an independent non-executive director with effect from 1 October 2012 until 29 April 2016. Bob is also Chairman of Home Group, one of the UK's leading housing associations. He was Chief Executive at Arriva Plc (1998-2006) and East Midlands Electricity Plc (1997-98). Since then he has been non-executive Chairman of Biffa Plc, Countrywide Plc and Euroports Holdings S.á r.l. He has also been a non-executive director of Barratt Developments Plc, British Energy Plc and Northern Rock (Asset Management) Plc and chaired the Board of Governors of Sunderland University.

Antonio Herrera
Antonio was appointed to the board as alternate to Vicky Chan in September 2013. He is an Investment Principal within Citi Infrastructure Investors; a business unit of Citigroup Alternative Investments LLC, a wholly owned subsidiary of Citigroup Inc. Antonio is a director of Itínere Infraestructuras, S.A. and Vantage Airports Group Ltd.

Sara Leong
Sara was appointed to the board on 27 March 2014 as alternate for Scott Auty. Sara is a Director of Deutsche Asset and Wealth Management, a division of Deutsche Bank. She joined Deutsche Bank in February 2012. Prior to that, Sara was at Macquarie Group Limited, focusing on the utilities and renewable sectors and held board positions at Thames Water and Wales & West Utilities; and project and structured finance at Australia

and New Zealand Banking Group Limited. Sara is also a director of Northern Gas Networks.

Jean Daigneault
Jean was appointed to the board on 1 February 2013 as an alternative for Michael Osborne.

Nikolaus Roessner
Nikolaus was appointed to the Board 24 March 2016 as an alternative for Milton Fernandes.

Mark Chladek
Mark was appointed to the Board from 7 December 2012 until 24 March 2016 as an alternative for Milton Fernandes.

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 2016, 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
- M&G Infracapital: 10% holding
- SAS Trustee Corporation: 10% holding

Financial results for the year

The loss for the year after tax was £322.0m (2015: loss £279.7m). The Company did not pay dividends during the year (2015: £nil).

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 36.

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, KWS, KeyLand, a company which primarily develops surplus property assets of Yorkshire Water and Kelda Water Services (Retail), the business intended to take the Group forward in the retail market for business and other non-household retail customers under the framework established by the UK Water Act 2014.

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £5.1m (2015: £5.0m) was committed to research and development including £5.1m (2015: £5.0m) on non-current assets.

Valuation of assets

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

Certain classes of the Group's tangible fixed assets, infrastructure assets, were revalued in the year as detailed in note 12 to the statutory financial statements. As a result of the valuation carried out at 31 March 2015 the carrying value of the infrastructure assets was increased by £364m and the resulting revaluation surplus taken to the revaluation reserve. The directors reviewed the carrying value of these assets at 31 March 2016 and concluded them to be in line with fair value.

Certain classes of the Group's land and buildings are also held at valuation, based on 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.

The policy of holding these assets at valuation rather than historic cost has no impact on bank covenants or on distributable reserves. The policy is intended to better reflect the value of those asset classes in the financial statements. These assets will be revalued on a periodic basis.

Employees and employment policies

Colleague engagement takes place using a range of channels including regular operational 'hubs' for 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 quarterly 'Post Your Views' surveys. 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 regularly 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 of 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 been met. The Group has three prioritised areas of focus, Gender, Ability and Ethnicity, these have been identified as key areas of focus to help us become a more diverse and inclusive employer and better reflect our customer base.

During the last year, the Group has focused 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 different levels of physical and mental attributes. 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. Over the next five years, they have committed to sponsoring 100 females with their personal and professional development.

The Group has a big role to play in addressing skills shortages, particularly when it comes to Engineering and the Science, Technology, Engineering and Mathematics (STEM) subjects. The Group pro–actively supports national Women in Engineering day by running a number of events with girls from local schools.

Our commitment to Diversity, Equality and Inclusion is demonstrated by our aspiration to be the first Water company to achieve the National Equality Standard. Diversity and inclusion principles underpin all of the Group's work and the services it provides.

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 the pipeline of technical talent, understanding future skills requirements to meet the Group's evolving needs and the continued use of the talent framework, which discusses aspirations, skills and development needs at all levels. During the next five years the Group will recruit 160 Apprentices and 100 Technical Trainee roles so that they have a strong pipeline of talent for the future and that they are making a difference to the unemployment of young people. The Group works in partnership with a number of schools across the region to ensure that we help young people become more employable when they leave school and that they 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 provide 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.

Championing diversity and human rights
We are committed to equality of opportunity for all. By valuing and respecting all of our people, we will increase our knowledge, get the best out of colleagues and widen our future talent pool. Diversity and inclusion makes good sense.

We have formed a new Diversity & Inclusion Group that includes representatives from across the business and our contract partners. The Group has started by prioritising three areas: Gender, Ability and Ethnicity. The Group is working in partnership with external organisations to deliver a range of tangible outputs including raising awareness and engaging with audiences including the ex-services and disadvantaged schools.

We aim to achieve the National Equality Standard by 2020, the first industry recognised national standard for equality, diversity and inclusion. We are using the standard to benchmark our approach and identify future improvements.

Below we provide an overview of Group's diversity statistics as it was on 31 March 2016 and 31 March 2015.

Gender	Male		Female	
	2016	2015	2016	2015
Statutory directors	7 (58.3%)	9 (64.3%)	5 (41.7%)	5 (35.7%)
Senior managers	37 (74.0%)	33 (76.7%)	13 (26.0%)	10 (23.3%)
Total employees	2,285 (66.7%)	2,207 (67.0%)	1,142 (33.3%)	1,085 (33.0%)

Ethnicity	White		Black and Minority Ethnic (BME)		Not disclosed	
	2016	2015	2016	2015	2016	2015
Statutory directors	7 (58.3%)	10 (71.4%)	3 (25.0%)	3 (21.4%)	2 (16.7%)	1 (7.2%)
Senior managers	39 (78.0%)	35 (81.4%)	1 (2.0%)	1 (2.3%)	10 (20.0%)	7 (16.3%)
Total employees	2,629 (76.7%)	2,658 (80.7%)	254 (7.4%)	253 (7.7%)	544 (15.9%)	381 (11.6%)

Diversity Statistics (continued)

Age	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory directors	**2016**	0 (0.0%)	3 (25.0%)	2 (16.7%)	5 (41.7%)	2 (16.7%)	0 (0.0%)
	2015	0 (0.0%)	3 (21.4%)	2 (14.3%)	5 (35.7%)	3 (21.4%)	1 (7.2%)
Senior managers	**2016**	0 (0.0%)	2 (4.0%)	17 (34.0%)	21 (42.0%)	7 (14.0%)	3 (6.0%)
	2015	0 (0.0%)	5 (11.60%)	14 (32.6%)	17 (39.5%)	4 (9.3%)	3 (7.0%)
Total employees	**2016**	268 (7.8%)	922 (26.9%)	857 (25.0%)	917 (26.8%)	449 (13.1%)	14 (0.4%)
	2015	237 (7.2%)	859 (26.1%)	822 (25.0%)	924 (28.1%)	438 (13.3%)	12 (0.4%)

Our Human Rights Policy recognises the rights set out in the International Bill of Human Rights, and the principles described in the UN Global Compact. As well applying to our immediate employees, we actively manage and monitor our supply chains to ensure working practices are consistent with our policy. The policy can be found at:
http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

Health and Safety

It is essential that the Group work to prevent harm and protect health across all stages of its business operations, environments and communities.

We drive a Plan – Do – Check – Act continuous improvement cycle that is underpinned by the following principles:

- strong and active leadership from the top down;
- employee engagement and involvement;
- assessment and review.

We maintain a clear focus on meeting the needs of our people, stakeholders, customers and other members of the public and strive for continual improvement, by:

- complying with our duties under the Health and Safety at Work etc. Act 1974 and all other relevant legislation;
- identifying hazards and mitigating risks to levels as low as reasonably practicable;
- managing all our activities by seeking to eliminate injuries, incidents and ill health and minimise any consequences that might arise in the event of any incident;
- providing training, monitoring, supervision and leadership to ensure the competence of employees and compliance with our Occupational Health and Safety (OH&S) policies and procedures;
- assessing and monitoring the OH&S systems and performance of our suppliers, partners and contractors to ensure their competence;
- continually reviewing and challenging our performance, and setting ourselves objectives;
- aiming to meet all of the above at an affordable cost to our customers.

We use an Occupational Health & Safety Management System (OHSMS) to help ensure compliance with the standards and expectations of the Health and Safety Executive. We continue to deliver a programme of improvements to our system and practices.

The OHSMS is a live and dynamic system that we continually review and improve in line with our understanding of business risks, performance, incidents, injuries, inspections and audits. The system consists of an integrated framework that links the following elements:

- applicable health and safety legislation;
- corporate policy outlining our commitment to continually improve;
- management standards to provide governance and assurance that risk controls are identified, established and effective;
- management procedures to address specific legislative needs and business risks;
- continual risk identification, assessment and escalation processes;
- provision of adequate and competent resources and supervision;
- safe implementation of work activities through planning, effective risk controls and compliance with safe working and business procedures;
- performance evaluation through KPI measurement, inspection and audit;
- continual improvement through management review and corrective action.

The OHSMS is designed to make it easy for leaders to integrate health and safety requirements and expectations into their day-to-day routine business activities and in return be successful in delivering excellent business performance through operational excellence, employee engagement and above all safe and healthy people and places to work. It is a live and dynamic system and is continually reviewed and improved as the Group understands and learns from its business risks, performance, incidents, injuries, inspections and audits.

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 £1,700 (2015: £2,500) in such activities.

Independent auditors

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

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

Financial instruments

Details are provided in the financial statements section in note 22 and in the strategic report on page 25.

Future developments

Future events are dealt with as part of the Strategic Report on pages 1 to 36.

Annual general meeting

Kelda Holdings Limited has dispensed with the requirement to hold an annual general meeting.

Going concern
After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has £891.6m of undrawn committed borrowing facilities and has a robust business model with positive cash flows projected for the next 25 years. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Environment
The environmental policy of the Group recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business.

Environmental performance is reported throughout the Strategic Report of this Annual Report, and on the Group's website. This can be viewed at http://www.keldagroup.com/corporate-responsibility/respecting-our-environment.aspx.

Community
The Group contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from governor appointments and Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds. Further details on our community activities can be found on page 81 of the Directors' Report of this Annual Report.

Disclosure of information to auditors
Each director in office at the date of this report confirms that, to the best of their knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and loss of the Group: and

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that it faces.

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.

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

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

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

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;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the parent company financial statements; 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 4 November 2016 and signed on its behalf by:

Richard Flint, Director
4 November 2016

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

Company secretary: Dominion Corporate Services Ltd

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

Independent auditors' report to the members of Kelda Holdings Limited

Our opinion
In our opinion, Kelda Holdings 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 2016 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 (Jersey) Law 1991.

What we have audited
Kelda Holdings Limited's financial statements comprise:

- the group balance sheet as at 31 March 2016 year end date;
- the group income statement and group statement of comprehensive (expense)/income for the year then ended;
- the group cash flow statement for the year then ended;
- the group 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 their preparation is applicable law and IFRSs as adopted by the European Union.

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

Other matters on which we are required to report by exception

Accounting records and information and explanations received
Under the Companies (Jersey) Law 1991 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement set out on page 82, 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 Article 113A of the Companies (Jersey) Law 1991 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.

Arif Ahmad
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
4 November 2016

Kelda Holdings Limited
Group income statement
for the year ended 31 March 2016

	Note	**2016 £m**	2015 £m
Revenue	3	**1,063.4**	1,095.6
Operating costs before exceptional items	4	**(768.7)**	(678.4)
Exceptional items	5	**(431.8)**	1.6
Total operating costs		**(1,200.5)**	(676.8)
Operating (loss)/profit before share of associates and joint ventures		**(137.1)**	418.8
Share of associates' and joint ventures' profit/(loss) after tax	13	**(0.3)**	0.5
Operating (loss)/profit from continuing operations	3	**(137.4)**	419.3
Finance income before exceptional items	7	**23.3**	22.8
Exceptional finance income	5	**137.1**	9.0
Total finance income		**160.4**	31.8
Finance costs before exceptional items	7	**(389.9)**	(404.6)
Exceptional finance costs	5	**(4.4)**	(378.5)
Total finance costs		**(394.3)**	(783.1)
Loss from continuing operations before taxation		**(371.3)**	(332.0)
Tax credit	8	**49.3**	52.3
Loss for the year attributable to owners of the parent		**(322.0)**	(279.7)

All material activities in both the current and previous year relate to continuing operations.

Kelda Holdings Limited
Group statement of comprehensive income
for the year ended 31 March 2016

	Note	**2016** **£m**	2015 £m
Loss for the year		**(322.0)**	(279.7)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of land and buildings:			
Gains on revaluation of infrastructure assets before taxation	12	**-**	233.9
Taxation	8	**5.0**	(46.8)
		5.0	187.1
Remeasurements of post-employment benefit obligations:			
Remeasurement of defined benefit pension before taxation	20	**134.2**	0.9
Remeasurement of employer funded retirement benefit scheme before taxation		**0.9**	0.4
Taxation	8	**(26.1)**	0.2
		109.0	1.5
Items that may be subsequently reclassified to profit or loss:			
Gains/(Losses) on hedges taken to equity:			
Gains/(Losses) on hedges taken to equity before taxation		**0.9**	(6.5)
Taxation	8	**(0.8)**	1.2
		0.1	(5.3)
Other comprehensive income for the year, net of tax		**114.1**	183.3
Total comprehensive loss for the year		**(207.9)**	(96.4)

Kelda Holdings Limited
Group balance sheet
as at 31 March 2016

	Note	**2016**	2015
		£m	£m
Non-current assets			
Intangible assets	10	**1,504.9**	1,877.1
Financial assets	11	**152.3**	156.8
Property, plant and equipment	12	**7,006.0**	6,921.2
Investments in associated undertakings and joint ventures	13	**0.9**	1.2
Loans to associated undertakings and joint ventures	13	**0.3**	10.4
Trade and other receivables	15	**0.1**	-
Derivative financial assets	22	**90.8**	67.8
Post- employment benefit surplus	20	**58.1**	-
		8,813.4	9,034.5
Current assets			
Inventories	14	**2.7**	2.0
Trade and other receivables	15	**207.5**	197.5
Tax assets		**2.5**	3.6
Short term deposits	16	**77.6**	82.0
		290.3	285.1
Total assets		**9,103.7**	9,319.6
Current liabilities			
Trade and other payables	17	**(691.6)**	(529.5)
Deferred grants and contributions on depreciated assets		**(4.6)**	(2.8)
Borrowings	16	**(169.2)**	(146.6)
		(865.4)	(678.9)
Non-current liabilities			
Borrowings	16	**(5,823.2)**	(5,748.2)
Trade and other payables	17	**(29.4)**	(46.3)
Financial liabilities	22	**(1,651.4)**	(1,771.6)
Deferred grants and contributions on depreciated assets		**(46.3)**	(48.9)
Post-employment benefits deficit	20	**-**	(87.5)
Provisions for other liabilities and charges	18	**(2.2)**	(8.8)
Deferred income tax liabilities	19	**(506.3)**	(531.4)
		(8,058.8)	(8,242.7)
Total liabilities		**(8,924.2)**	(8,921.6)
Net assets		**179.5**	398.0
Equity attributable to owners of the parent			
Equity shares	21	**655.1**	665.7
Hedging reserve		**(39.1)**	(39.2)
Revaluation reserve		**205.7**	200.9
Share-based payment reserve		**5.2**	5.2
Accumulated losses		**(647.3)**	(434.6)
Total equity		**179.5**	398.0

The financial statements on pages 85 to 152 were approved by a duly authorised committee of the board of directors on 4 November 2016 and signed on its behalf by:

Liz Barber
Director

Kelda Holdings Limited
Group statement of changes in equity
for the year ended 31 March 2016

	Ordinary shares £m	Hedging reserve £m	Revaluation reserve £m	Share-based payment reserve £m	Accumulated losses £m	Total equity £m
At 1 April 2014	665.7	(33.9)	13.8	5.2	(156.4)	494.4
Loss for the year	-	-	-	-	(279.7)	(279.7)
Total included in the Group statement of comprehensive income	-	(5.3)	187.1	-	1.5	183.3
At 1 April 2015	665.7	(39.2)	200.9	5.2	(434.6)	398.0
Shares in the year redeemed	(10.6)	-	-	-	-	(10.6)
Loss for the year	-	-	-	-	(322.0)	(322.0)
Transfer between reserves	-	-	(0.2)	-	0.2	-
Total included in the Group statement of comprehensive income	-	0.1	5.0	-	109.0	114.1
At 31 March 2016	**655.1**	**(39.1)**	**205.7**	**5.2**	**(647.4)**	**179.5**

Kelda Holdings Limited
Group cash flow statement
for the year ended 31 March 2016

	Note	**2016** **£m**	2015 £m
Cash flows from operating activities	24	**577.3**	636.5
Income taxes received		**2.5**	17.5
Interest paid		**(280.6)**	(265.7)
Net cash generated from operating activities		**299.2**	388.3
Cash flows from investing activities			
Interest received		**22.2**	21.3
Increase in loans to associates and joint ventures		**(0.6)**	(0.7)
Net proceeds from disposal of interest in Joint Ventures		**8.1**	-
Proceeds on disposals of property, plant and equipment		**6.8**	1.4
Purchases of property, plant and equipment		**(298.1)**	(282.2)
Capital grants and contributions		**17.1**	20.9
Net cash used in investing activities		**(244.5)**	(239.3)
Cash flows from financing activities			
Redemption of preference shares		**(10.6)**	-
Borrowings raised (net of fees)		**19.5**	89.7
Repayments of borrowings		**(33.9)**	(206.0)
Repayment of obligations under finance leases and hire purchase agreements		**(34.1)**	(29.0)
Net cash used in financing activities		**(59.1)**	(145.3)
Net increase/(decrease) in cash and cash equivalents		**(4.4)**	3.7
Cash and cash equivalents at the beginning of the year		**82.0**	78.3
Cash and cash equivalents at the end of the year	16	**77.6**	82.0

Notes to the Group financial statements

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2016 were authorised for issue by the Board of directors on 4 November 2016 and the balance sheet was signed on the Board's behalf by Liz Barber, Director of Finance, Regulation and Markets. Kelda Holdings Limited is a limited company incorporated and domiciled in Jersey.

2. Accounting policies

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

Basis of accounting

The consolidated financial statements of Kelda Holdings Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and 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 2016.

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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 100 to 102.

Basis of consolidation

The Group financial statements consolidate the financial statements of Kelda Holdings 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.

2. Accounting policies (continued)

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.

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.

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2. Accounting policies (continued)

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

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

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

Property, plant and equipment
Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. During a prior year the accounting policy of infrastructure assets was changed from a historical cost basis and they are now held at valuation (see note 12). Other property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment.

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

Useful economic lives are principally as follows:

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

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

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

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

2. Accounting policies (continued)

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

Impairment of property, plant and equipment and goodwill

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

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

Accounting for leases

Finance leases

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

Operating leases

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

Government grants and contributions

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

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

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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. Other trade receivables generally have 7-30 day payment terms. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Trade and other payables

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

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;

(i) 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

(ii) fair value at the measurement date. The movement in the fair value of the loan or borrowing is recognised in the income statement. The fair values of the borrowings are determined by reference to quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

Derivative financial instruments

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

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

2. Accounting policies (continued)

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, with which they then invest in an annuity. Other than this contribution, the Group has no further legal or constructive obligation to make further contributions to the scheme.

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

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

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

A liability or asset is recognised in the balance sheet in respect of the Group's net obligations to the scheme. 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.

2. Accounting policies (continued)

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 reporting entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

Segmental reporting
The Group's primary reporting format is by business segment and its secondary format is by geographical segment. A segment is a component of the Group which can be distinguished separately as providing a product or service within a particular environment which is subject to risks and rewards that are different from those of other segments. The Group has identified 3 business segments:

- UK Regulated Water Services – Yorkshire Water
- UK Service Operations – Kelda Water Services 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 net cost/ (income) for pensions include the discount rate of 3.55% (2015: 3.30%). Any changes in these assumptions will impact the carrying amount of the pension obligation.

2. Accounting policies (continued)

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 61 and 62. 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 £29.8m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £59.1m 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 estimated discount rates. Management base their estimate of discount rate on a consideration of the long term risk free interest rate for the UK, an industry specific risk factor (beta factor), a market risk premium at the date of valuation and a company specific risk factor.

In reviewing goodwill for impairment the Group applied a discount rate of 6.15% (2015: 6.15%) and a long term inflation rate of 3.00% (2015: 2.75%) to the expected future cash flows of the

Group. Inflation is deemed to be a key driver of revenue and costs for the Group. On this basis the carrying amount of goodwill exceeded the recoverable amount of goodwill by £400m at 31 March 2016. On this basis the Group have recognised an impairment of this amount (see note 10). Were the discount rate applied in reviewing goodwill to be adjusted by 0.25%, the carrying value of goodwill would be adjusted by £342.3m.

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on pages 58 and 59 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.

2. Accounting policies (continued)

- 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 2016 current trade receivables were £125.2m (2015: £132.7m), before provision for impairments.

- Taxation

The corporation tax provision of reflects management's estimation of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed by Her Majesty's Revenue and Customs.

New standards and interpretations

The following standards have been adopted by the Group for the first time for the financial year beginning 1 April 2015 and do not have a material impact on the Group:

- Amendment to IAS 19 'Employee benefits';
- Annual improvements 2012 cycle amending IFRS 2, IFRS 3, IFRS 8, IFRS 9, IFRS 13, IFRS 15, IAS 16, IAS 38, IFRS 9, IAS 37 and IAS 39;
- Annual improvements 2013 cycle amending IFRS 1, IFRS 3, IFRS 13 and IAS 40.

The following standards, interpretations and amendments to existing standards are effective for annual periods starting on or after 1 January 2016 and have not been early adopted by the Group:

- Amendment to IFRS 11 'Joint arrangements";
- Amendment to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture';
- IFRS 14 'Regulatory deferral accounts';
- Amendments IAS 27 'Separate financial statements' on the equity method';
- Annual improvements 2014 cycle amending IFRS 5, IFRS 7, IAS19 and IAS34;
- Amendment to IAS 1 'Presentation of financial statements';
- Amendment to IFRS 10 and ISA 28 on investment entities applying the consolidation exception.

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the Group:

- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures';
- Amendments to IAS 7 'Statement of cash flows on disclosure initiative';
- Amendments to IAS 12 'Income taxes' on recognition of deferred tax assets for unrealised losses';
- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from contracts with customers';
- IFRS 16 'Leases'.

The Group is still considering the implications of applying these standards and interpretations to the Group's financial statements.

3. Segmental information

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

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

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

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

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 continuing £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	(26.5)	-	-	(405.3)	(431.8)	-	(431.8)
	255.4	**9.1**	**1.2**	**(402.8)**	**(137.1)**	**-**	**(137.1)**
Add associates' and joint ventures' profit					(0.3)	-	(0.3)
Group operating profit from continuing operations					**(137.4)**	**-**	**(137.4)**
Investment income							23.3
Finance costs							(389.9)
Exceptional items in finance income							137.1
Exceptional items in finance costs							(4.4)
Loss from continuing operations before taxation							**(371.3)**
Tax credit							49.3
Loss for the year attributable to owners of the parent							**(322.0)**

3. Segmental information (continued)

Year ended 31 March 2016

	UK regulated water services	UK service operations	Property development	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m
Assets	8,435.6	388.6	34.8	167.1	9,026.1
Liabilities	(2,673.7)	(225.0)	(8.7)	(24.4)	(2,931.8)
Net debt	(4,611.0)	(139.5)	-	(1,164.3)	(5,914.8)
Net assets	**1,150.9**	**24.1**	**26.1**	**(1,021.6)**	**179.5**
Other information					
Capital additions	**271.0**	**7.3**	**-**	**12.3**	**290.6**

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 24, 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.

The Group's geographical segments are based on the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. There are no material assets of the Group located outside the United Kingdom in the year ended 31 March 2016.

3. Segmental information (continued)

Year ended 31 March 2015

	UK regulated water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total continuing £m	Reallocation to other operating income £m	Total after reallocations £m
Total revenue	1,004.8	172.8	3.7	5.4	1,186.7	(3.4)	1,183.3
Inter-company revenue	(3.0)	(84.4)	(0.3)	-	(87.7)	-	(87.7)
External revenue	**1,001.8**	**88.4**	**3.4**	**5.4**	**1,099.0**	**(3.4)**	**1,095.6**
Depreciation	(236.3)	(14.7)	-	14.9	(236.1)	-	(236.1)
Amortisation of deferred grant income	2.9	-	-	-	2.9	-	2.9
Other operating costs	(384.1)	(53.1)	(2.9)	(6.9)	(447.0)	3.4	(443.6)
	384.3	**20.6**	**0.5**	**13.4**	**418.8**	**-**	**418.8**
Add associates' and joint ventures' profit					0.5	-	0.5
Group operating profit from continuing operations					**419.3**	**-**	**419.3**
Investment income							22.8
Finance costs							(404.6)
Exceptional items in finance income							9.0
Exceptional items in finance costs							(378.5)
Loss from continuing operations before taxation							**(332.0)**
Tax credit							52.3
Loss for the year attributable to owners of the parent							**(279.7)**

3. Segmental information (continued)

Year ended 31 March 2015

	UK regulated water services	UK service operations	Property development	Other companies and consolidation adjustments	Total
	£m	£m	£m	£m	£m
Assets	12,785.0	364.9	31.4	(3,944.9)	9,236.4
Investments in associates and joint ventures accounted for by the equity method	-	-	1.2	-	1.2
Liabilities	(5,343.8)	(219.1)	(9.8)	2,545.9	(3,026.8)
Net debt	(4,454.7)	(124.4)	0.1	(1,233.8)	(5,812.8)
Net assets	**2,986.5**	**21.4**	**22.9**	**(2,632.8)**	**398.0**
Other information					
Capital additions	**285.7**	**7.3**	**0.6**	**23.3**	**316.9**

Net debt of £5,812.8m as noted above includes cash of £60.3m and short term deposits of £21.7m which are included in the balance sheet within total assets; and borrowings of £5,894.8m 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 £1,062.9m of loan notes issued by Kelda Eurobond Co Limited.

The Group's geographical segments are based on the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. There are no material assets of the Group located outside the United Kingdom in the year ended 31 March 2015.

4. Operating costs before exceptional items

	2016	2015
	£m	£m
Own work capitalised	**(34.3)**	(36.3)
Raw materials and consumables	**35.0**	31.7
Other external charges	**318.0**	301.1
Staff costs (note 6)	**141.3**	132.6
Depreciation of property, plant and equipment (note 12)		
On owned assets		
- UK infrastructure	**71.8**	36.3
- other assets	**206.5**	191.1
On assets held under finance lease		
- UK infrastructure	**1.4**	1.4
- other assets	**7.1**	7.3
Impairment of plant and equipment	**-**	1.2
Operating lease rentals - minimum lease payments		
- plant and equipment	**2.0**	1.9
- other	**1.7**	1.5
Amortisation of grants and contributions	**(2.9)**	(2.9)
Amortisation of intangible assets (note 10)	**6.3**	2.1
Research and development	**-**	-
Movement of fair value of energy contracts (note 22)	**10.0**	(6.4)
Impairment of trade receivables	**18.8**	26.5
Impairment of loans to related parties	**-**	0.6
Profit on disposal of joint venture	**(4.2)**	-
Profit on disposal of property, plant and equipment	**(2.8)**	(2.2)
Other operating income	**(7.0)**	(9.1)
	768.7	678.4

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 32, is calculated as follows:

	2016	2015
	£m	£m
Group operating (loss)/profit before share of associates and joint ventures	**(137.1)**	418.8
Add back exceptional items	**431.8**	(1.6)
Add back depreciation and amortisation of capital grants (as above)	**283.9**	233.2
Add back amortisation of intangible assets (as above)	**6.3**	2.1
Add back impairment of fixed assets	**-**	1.2
EBITDA	**584.9**	653.7

4. Operating costs before exceptional items (continued)

Auditors' remuneration

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

	2016 £m	2015 £m
Fees payable to the Group's auditors for other services:		
- The audit of company's subsidiaries pursuant to legislation	**0.3**	0.3
- Fees for other services	**-**	-
	0.3	0.3

5. Exceptional items

Exceptional items comprise:

	2016 £m	2015 £m
Included in operating costs:		
Release KGI Bridgeport company provision	**0.2**	9.1
Contract compliance costs	**(5.5)**	(7.5)
Impairment of assets due to flooding	**(26.5)**	-
Impairment of goodwill	**(400.0)**	-
	(431.8)	1.6
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	**-**	4.2
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**8.1**	4.8
	137.1	9.0
Included in finance costs		
Movement of fair value of index linked swaps	**-**	(369.9)
Movement of fair value of finance lease interest rate swaps	**(0.7)**	(8.6)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(3.7)**	-
	(4.4)	(378.5)

The directors have prepared an impairment test which showed that there was an impairment of goodwill of £400m for the year ended 31 March 2016 (see note 10 for details of the basis of this test).

Included in operating costs is an exceptional gain of £0.2m, relating to the release of the Bridgeport provision which is no longer required (see note 18), and an exceptional item of £5.5m for the cost of meeting contractual obligations at the Aberdeen site, both are one-off in nature.

In addition, an exceptional charge of £26.5m resulted from the impact of severe flooding at certain operational sites of Yorkshire Waterduring the year. This charge consists of an asset impairment of £35.0m, operating costs of £1.5m and insurance income of £10.0m.

5. Exceptional items (continued)

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 2016 resulted in a £1,734.3m liability (2015: £1,858.3m).

Of the year on year movement of £124.0m, a charge of £21.8m (2015: £61.6m) relating to RPI accretion has been recognised within finance costs, an income charge of £129.0m (2015: £369.9m charge) has been recognised as an exceptional finance cost and the net remaining movement of £16.7m (2015: £19.6m) was cash paid. This charge has been included in the income statement as the specific circumstances which would allow it to be held in reserves have not been met.

The movement 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 2016 resulted in a £24.9m liability (2015: £24.2m). The year on year increase of the liability of £0.7m (2015: £8.6m) has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were no longer met. The interest charged or credited to the income statement in relation to these swaps is shown in note 7.

Exceptional finance 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 2016. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £3.7m charge (2015: £4.2m credit) to the income statement.

Exceptional finance income also includes 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 2016. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £8.1m credit (2015: £4.8m credit) to the income statement.

6. Directors and employees

Average monthly number of people employed by the Group	**2016 Number**	2015 Number
UK regulated water services	**2,321**	2,309
Other activities	**1,019**	1,006
	3,340	3,315

	2016 £m	2015 £m
Total employment costs:		
Wages and salaries	**107.6**	102.7
Social security costs	**10.3**	9.8
Other pension costs	**23.4**	20.1
	141.3	132.6

Directors' emoluments

	2016 £m	2015 £m
Aggregate emoluments	**2.1**	1.8
Employer contributions to money purchase schemes	**-**	-
	2.1	1.8

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

	2016 £m	2015 £m
Aggregate emoluments	**1.0**	0.7
	1.0	0.7

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

During the year ended 31 March 2016, one (2015: two) director was a contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in the year ended 31 March 2016 was £0.2m (2015: £0.2m).

No director exercised share options during the year. The Group contributed £Nil (2015: £0.1m) to a money purchase pension scheme on behalf of one director.

During the year ended 31 March 2016, two (2015: two) directors were incentivised through a long term incentive plan which allows them to receive, at the discretion of the Remuneration Committee, a conditional monetary award.

No directors resigned during the financial year. No directors were compensated for loss of office during the year (2015: £nil).

7. Finance income and finance costs

	2016 £m	2015 £m
Finance income		
Interest on bank deposits	**0.8**	1.5
Interest receivable from index linked swaps	**9.3**	8.6
Interest receivable from cross currency interest rate swaps	**13.2**	12.7
Finance income before exceptional items	**23.3**	22.8
Exceptional finance income (note 5)	**137.1**	9.0
Total finance income	**160.4**	31.8
Finance costs		
Interest payable on guaranteed bonds	**179.6**	179.6
Interest payable on US Dollar bonds	**11.4**	11.5
Interest payable on AU Dollar bonds	**2.0**	2.0
Amortisation of issue costs in respect of bonds	**1.2**	1.1
Total finance costs for bonds	**194.2**	194.2
Bank loans and overdrafts	**31.4**	30.6
RPI accretion on index linked bonds	**21.8**	61.6
Interest payable on index linked swaps	**40.5**	40.4
Interest payable on bonds issued by Kelda Eurobond Co Limited	**84.6**	77.6
Finance leases	**6.3**	6.7
Change in fair value of financial assets	**15.1**	14.7
Net interest cost on pension scheme liabilities (note 20)	**2.4**	3.7
Commitment fees and miscellaneous interest	**6.6**	5.8
Finance costs before interest capitalisation and exceptional items	**402.9**	435.3
Interest capitalised	**(13.0)**	(30.7)
Finance costs before exceptional items	**389.9**	404.6
Exceptional finance cost (note 5)	**4.4**	378.5
Total finance cost	**394.3**	783.1

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

8. Tax credit

	2016	2015
	£m	£m
Current tax		
UK corporation tax at 20% (2015: 21%)	**-**	0.1
Adjustments in respect of prior years	**(2.3)**	(26.4)
Total current tax from continuing operations	**(2.3)**	(26.3)
Deferred tax		
UK charge for temporary differences arising and reversing in the year	**4.9**	(68.0)
Adjustments in respect of prior years	**(3.0)**	38.8
Effect of change in tax rates	**(48.9)**	3.2
Total deferred tax on continuing activities (note 19)	**(47.0)**	(26.0)
Total tax credit on loss from ordinary activities	**(49.3)**	(52.3)

Tax relating to items charged/(credited) to equity		
Deferred tax:		
Actuarial losses /(gains) in respect of defined benefit pension schemes	**26.1**	(0.2)
Movement in fair value of hedges	**0.8**	(1.2)
Revaluation of infrastructure assets	**(4.7)**	46.8
Revaluation of property, plant and equipment	**(0.3)**	-
Tax charge in the Group statement of comprehensive income	**21.9**	45.4

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 20% (2015: 21%) to the (loss)/ profit on ordinary activities before tax is as follows:

	2016	2015
	£m	£m
Profit/(Loss) from continuing operations before taxation	**(371.3)**	(332.0)
Less: share of associates' and joint ventures' loss/(profit) before tax	**0.3**	(0.5)
	(371.0)	(332.5)
Current and deferred tax on Group profit/(loss) on ordinary activities at the standard UK tax rate	**(74.2)**	(69.8)
Effects of:		
Expenses not deductible for tax purposes	**83.7**	5.3
Income not chargeable for tax purposes	**(4.6)**	(3.4)
Change in deferred tax rate	**(48.9)**	3.2
Adjustments in respect of prior years	**(5.3)**	12.4
Group current and deferred tax credit for the year	**(49.3)**	(52.3)

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 set the main rate of corporation tax rate at 19% from 1 April 2017 and 18% from 1 April 2020. These rates were substantively enacted on 25 October 2015 and the deferred tax liability at 31 March 2016 has been calculated based on these rates.

8. Tax credit (continued)

The Chancellor announced in the Budget on 16 March 2016 that the main rate of corporation tax will be reduced to 17% from 1 April 2020. This had not been substantively enacted at the balance sheet date and therefore is not included in these financial statements.

The overall effect of that change, if it had been applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £28.1m and increase the tax credit by the same amount.

The deferred tax credit for the year relates to the following:

	2016	2015
	£m	£m
Accelerated depreciation for tax purposes	**(68.7)**	45.9
Fair value adjustment of infrastructure assets	**(40.2)**	(0.1)
Roll-over relief	**(0.1)**	-
Financial instruments	**56.8**	(73.0)
Retirement benefit obligations	**1.8**	1.2
Provision	**3.4**	-
Deferred tax credit	**(47.0)**	(26.0)

9. Dividends

No dividends were paid during the year (2015: £nil).

10. Intangible assets

	Intangible rights under concession contracts £m	Capitalised bid costs £m	Software £m	Goodwill £m	Total £m
Cost					
At 1 April 2014	68.9	15.9	-	1,800.3	1,885.1
Additions	7.3	-	-	-	7.3
At 31 March 2015	76.2	15.9	-	1,800.3	1,892.4
Reclassification	-	-	21.5	-	21.5
Additions	3.6	-	9.5	-	13.1
At 31 March 2016	**79.8**	**15.9**	**31.0**	**1,800.3**	**1,927.0**
Accumulated amortisation					
At 1 April 2014	7.4	5.8	-	-	13.2
Amortisation	1.2	0.9	-	-	2.1
At 1 April 2015	8.6	6.7	-	-	15.3
Reclassification	-	-	0.5	-	0.5
Impairment	-	-	-	400.0	400.0
Amortisation	1.4	0.5	4.4	-	6.3
At 31 March 2016	**10.0**	**7.2**	**4.9**	**400.0**	**422.1**
Net book value carried forward	**69.8**	**8.7**	**26.1**	**1,400.3**	**1,504.9**
Net book value brought forward	67.6	9.2	-	1,800.3	1,877.1

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, brings 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 (2015 - £1,800.3m) is all allocated to the UK regulated water services business segment. The recoverable amount of the UK regulated water services segment is determined based on a value in use calculation, using post tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long term business modelling covering a 25 year period. The period of cash flows of 25 years is deemed appropriate as it aligns with the long term planning of the regulated business as determined by Ofwat. The discount and inflation rates applied have been determined following advice from external consultants based on risk factors specific to the industry and circumstances of the Group.

10. Intangible assets (continued)

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

	2016	2015
Long term inflation (post 2015)	**3.00%**	2.75%
Discount rate (post-tax)	**6.15%**	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 an impairment of goodwill of £400m for the year ended 31 March 2016. This impairment is incorporated in the above valuation. There was no impairment for year ended 31 March 2015.

Sensitivities to change in the above assumptions are disclosed on page 100.

11. Financial assets

	2016	2015
	£m	£m
At 1 April	**156.8**	162.6
Additions	**6.6**	6.7
Movement in fair value	**(11.1)**	(12.5)
At 31 March	**152.3**	156.8

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

Under the terms of the contract the Group earns a Unitary Charge from the Ministry of Defence in return for providing the required quantity of water and water treatment to the Ministry of Defence at

11. Financial assets (continued)

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 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.

12. Property, plant and equipment

	Land and Buildings	Infrastructure assets	Plant and equipment	Under construction	Group total
	£m	£m	£m	£m	£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
Reclassification	-	32.2	-	-	32.2
Impairment	-	-	35.0	-	35.0
Disposals	(3.0)	-	(40.3)	-	(43.3)
At 31 March 2016	**530.4**	**105.4**	**1982.5**	**0.0**	**2,618.3**
Net book amount at 31 March 2016	**1,473.3**	**3,940.5**	**1,356.0**	**236.2**	**7,006.0**

During the year the Group capitalised borrowing costs amounting to £13.0m (2015: £30.7m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.92% (2015: 3.94%). Software development costs with a carrying value of £21.0m were reclassified to intangible assets during the year. Deferred income from infrastructure connection charges, previously presented net within fixed assets, of £156.7m, were reclassified as deferred income.

	Land and Buildings	Infrastructure assets	Plant and equipment	Under construction	Group total
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 April 2014	1,857.6	3,548.8	3,078.5	447.6	8,932.5
Additions at cost	-	14.7	16.5	285.7	316.9
Grants and contributions	-	-	-	(19.7)	(19.7)
Transfers on commissioning	75.6	159.0	187.7	(422.3)	-
Revaluation	-	79.1	-	-	79.1
Disposals	(12.3)	-	(67.7)	-	(80.0)
At 31 March 2015	**1,920.9**	**3,801.6**	**3,215.0**	**291.3**	**9,228.8**
Accumulated depreciation					
At 1 April 2014	473.6	117.8	1,713.1	-	2,304.5
Charge for the year	34.1	37.7	164.3	-	236.1
Revaluation	-	(155.5)	-	-	(155.5)
Impairment	-	-	1.2	-	1.2
Disposals	(11.1)	-	(67.6)	-	(78.7)
At 31 March 2015	**496.6**	**-**	**1,811.0**	**-**	**2,307.6**
Net book amount at 31 March 2015	**1,424.3**	**3,801.6**	**1,404.0**	**291.3**	**6,921.2**

12. Property, plant and equipment (continued)

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost	108.6	71.3	181.9	**361.8**
Depreciation	(38.8)	(28.5)	(144.0)	**(211.3)**
Net book amount at 31 March 2016	**69.8**	**42.8**	**37.9**	**150.5**
Net book amount at 31 March 2015	71.5	44.2	43.3	159.0

The Group's infrastructure assets were valued at 31 March 2016. 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 £Nil (2015 - £234.6m), 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

12. Property, plant and equipment (continued)

These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. As a result of the valuation carried out at 31 March 2014 the carrying value of land and buildings was increased by £17.2m and the resulting revaluation surplus taken to the revaluation reserve together with an associated deferred tax impact of £3.4m. As a result of the same revaluation certain properties were impaired and an impairment loss of £0.9m was recognised in the profit and loss. The valuations carried out at 31 March 2014 have been considered at 31 March 2016 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 £3,365.8m (2015: £3,573.3m).

Categories of assets revalued as at 31 March 2016 are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	3,940.3	2,510.9
Non-specialist properties	17.6	14.7
Rural estates	58.1	0.5
Residential properties	2.4	-
Net book amount of assets revalued	**4,018.4**	**2,526.1**

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

	Revalued amount £m	Historical cost basis £m
1 April 2014	82.0	16.8
Disposal of revalued assets	(1.1)	(0.6)
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.8)	(0.5)
1 April 2015	80.1	15.7
Disposal of revalued assets	(1.3)	0.0
depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2016	**78.1**	**15.3**

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

	Revalued amount £m	Historical cost basis £m
At cost	4,045.7	3,837.3
Aggregate depreciation	(105.4)	(1,326.4)
31 March 2015	**3,940.3**	**2,510.9**

13. Investments

	Share of net liabilities in associated and joint venture undertakings £m	Loans to associated and joint venture undertakings £m	Total investments in associated and joint venture undertakings £m
Cost and share of post acquisition retained losses			
At 1 April 2014	(5.5)	9.9	4.4
Share of profit for the year	0.5	-	0.5
Loans advanced during the year	-	0.5	0.5
At 1 April 2015	(5.0)	10.4	5.4
Share of profit for the year	(0.4)	-	(0.4)
Loans advanced/(repaid) during the year	-	0.3	0.3
Disposals	5.7	(10.4)	(4.7)
At 31 March 2016	**0.3**	**0.3**	**0.6**

Of the share of net assets/ (liabilities) in the table above of £0.3m (2015: (£5.0m), the share of losses relating to certain associated undertakings of £0.5m (2015: £6.2m) is held as a provision in line with IAS 27. The remaining asset balance of £0.8m (2015: £1.2m) is shown as an investment relating to the share of net assets held.

In March 2016 the Group completed the sale of its joint venture Aire Valley Land LLP. The profit arising on the disposal is disclosed in note 4.

The aggregate amounts of net assets, revenue and operating (loss)/profit relating to associates and joint ventures are:

	2016 £m	2015 £m
Non-current assets	**0.7**	5.2
Current assets	**1.7**	2.8
Share of gross assets	**2.4**	8.0
Current liabilities	**(2.0)**	(13.0)
Share of assets/(liabilities)	**0.4**	(5.0)
Share of net assets/(liabilities)	**0.4**	(5.0)
Operating (loss)/profit	**(0.3)**	0.5
Finance costs	**-**	-
Profit/(loss) before tax	**(0.3)**	0.5
Tax charge	**-**	-
(Sustained loss)/retained profit	**(0.3)**	0.5

14. Inventories

	2016	2015
	£m	£m
Raw materials and consumables	**2.7**	2.0

15. Trade and other receivables

	2016	2015
Amounts falling due within one year:	**£m**	£m
Trade receivables	**125.2**	132.7
Provision for impairment of trade receivables	**(29.6)**	(28.6)
	95.6	104.1
Provision for impairment of loans to associates	**-**	(6.5)
Prepayments and accrued income	**87.9**	77.3
Other tax and social security	**9.0**	8.2
Other receivables	**15.0**	14.4
	207.5	197.5
Amounts falling due in more than one year:		
Other receivables	**0.1**	-

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

Trade receivables can be analysed as follows:

	2016	2015
	£m	£m
Main charges trade receivables:		
Past due but not impaired	**76.7**	79.7
Past due and impaired	**28.5**	27.1
Other trade receivables:		
Past due but not impaired	**18.9**	24.4
Past due and impaired	**1.1**	1.5
	125.2	132.7

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

	2016	2015
	£m	£m
Main charges trade receivables:		
Less than one year overdue	**49.0**	52.7
Between one and two years overdue	**15.1**	15.2
Between two and three years overdue	**6.9**	6.5
Between three and four years overdue	**3.2**	2.9
More than four years overdue	**2.5**	2.4
Other trade receivables:		
Less than one year overdue	**18.9**	24.4
Between two and three years overdue	**-**	-
	95.6	104.1

15. Trade and other receivables (continued)

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

	2016 £m	2015 £m
Main charges trade receivables:		
Less than one year overdue	**10.6**	10.9
Between one and two years overdue	**6.2**	6.0
Between two and three years overdue	**4.6**	4.2
Between three and four years overdue	**3.8**	3.2
More than four years overdue	**3.3**	2.8
Other trade receivables:		
Less than one year overdue	**1.1**	1.5
	29.6	28.6

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

	2016 £m	2015 £m
Provision brought forward	**28.6**	26.2
Provision for impairment	**18.8**	26.5
Amounts written off	**(17.8)**	(24.1)
Provision at 31 March	**29.6**	28.6

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

16. Financing

(i) Cash and short-term deposits

	2016 £m	2015 £m
Cash and cash equivalents	**60.1**	60.3
Short-term deposits	**17.5**	21.7
	77.6	82.0

At 31 March 2016, the Group had available £891.6m (2015: £909.1m) of undrawn committed borrowing facilities.

(ii) Borrowings

Current borrowings:	2016 £m	2015 £m
Bank borrowings	**68.5**	47.5
Bank borrowings under Kelda Finance facility	**63.5**	65.0
Finance lease liabilities	**37.2**	34.1
	169.2	146.6

16. Financing (continued)

Non-current borrowings:	**2016 £m**	2015 £m
Bank borrowings	**404.9**	418.8
Fixed rate guaranteed bonds due in less than 5 years	**533.6**	722.4
Fixed rate guaranteed bonds due in more than 5 years	**1,946.0**	1,751.5
Index linked guaranteed bonds due in more than 5 years	**1,118.9**	1,100.6
RPI uplift on index linked bonds	**154.7**	149.7
Fixed rate US Dollar bonds due in less than 5 years	**28.2**	28.2
Fixed rate US Dollar bonds due in more than 5 years	**303.2**	285.8
Fixed rate AUS Dollar bonds due in more than 5 years	**29.5**	28.4
Bonds issued by Kelda Eurobond Co Limited	**1,146.2**	1,062.9
Finance lease liabilities	**162.6**	199.9
	5,823.2	5,748.2

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

6% guaranteed bonds 2017 £259.4m (2015: £448.5m)
These bonds are repayable in one sum on 19 August 2017. The interest is charged at 6%.

6% guaranteed bonds 2019 £274.2m (2015: £273.9m)
These bonds are repayable in one sum on 21 August 2019. Interest is charged at 6%.

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

3.75% guaranteed bonds 2046 £189.1m (2015: Nil)
These bonds are repayable in one sum on 22 March 2046. The interest is charged at 3.75%.

6.5876% guaranteed bonds 2023 (Exchange bonds) £200.7m (2015: £199.1m)
These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

5.375% guaranteed bonds 2023 (Stranded bonds) £4.7m (2015: £4.5m)
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 (2015: £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) £126.7m (2015: £125.8m)
These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

6.6011% guaranteed bonds 2031 (Exchange bonds) £261.7m (2015: £262.2m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.6011%.

6.625% guaranteed bonds 2031 (Stranded bonds) £0.7m (2015: £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 (2015: £183.2m)
These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

16. Financing (continued)

(ii) Borrowings (continued)

6.375% guaranteed bonds 2039 £304.4m (2015: £304.8m)
These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

5.75% guaranteed bonds 2020 £197.7m (2015: £197.1m)
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 £262.9m (2015: £266.2m)*
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 £104.1m (2015: £101.5m)
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 £102.1m (2015: £99.9)
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%.

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

3.3066% index linked guaranteed bonds 2033 (Exchange bonds) £170.2m (2015: £169.6m)
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 £328.5m (2015: £324.8m)
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 £54.1m (2015: £53.3m)
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 £70.7m (2015: £69.1m)
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 £122.8m (2015: £119.4m)
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.

16. Financing (continued)

(ii) Borrowings (continued)

1.758% index linked guaranteed bonds 2054 £90.2m (2015: £88.2m)
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 £124.9m (2015: £121.7m)
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 £103.6m (2015: £101.3m)
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 £53.9m (2015: £53.2m)*
These bonds were issued on 22 May 2012 are repayable in one instalment on 22 May 2042. The interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

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

Fixed rate US Dollar bonds

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).

16. 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 £44.9m (1-2 years), £107.9m (2 – 5 years) and £93.8m (more than 5 years), and PFI loans relating to service concession contracts repayable as £11.5m (1 – 2 years), £43.9m (2 – 5 years) and £102.9m (more than 5 years).

Short and long term bank loans are held in sterling and bear interest at normal commercial rates. The weighted average interest rates associated with the bank loans were 3.67% (2015: 2.22%).

Bonds issued by Kelda Eurobond Co Limited £1,146.2m (2015: £1,062.9m)

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

(iii) Finance leases

Amounts payable under finance leases:	**Minimum lease payments 2016 £m**	Minimum lease payments 2015 £m
No later than 1 year	**74.7**	49.4
Later than 1 year and no later than 5 years	**89.8**	160.7
Later than 5 years	**93.4**	100.7
	257.9	310.8
Less: future finance charges on finance lease liabilities	**(58.0)**	(76.8)
Present value of lease obligations	**199.9**	234.0
Amount due for settlement within 12 months	**37.3**	34.1
Amount due for settlement after 12 months	**162.6**	199.9
	199.9	234.0

All lease obligations are denominated in sterling.

The weighted average lease term is 9 years (2015: 10 years). For the year ended 31 March 2016 the average effective borrowing rate was 1.8% (2015: 1.8%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

17. Trade and other payables

Amounts falling due within one year:	2016 £m	2015 £m
Trade payables	**56.5**	65.0
Capital payables	**62.0**	69.0
Social security and other taxes	**2.8**	2.3
Receipts in advance	**57.4**	55.9
Interest payable	**110.8**	115.4
Deferred income	**356.1**	180.7
Other payables	**46.0**	41.2
	691.6	529.5

Amounts falling due after more than one year:		
Interest payable	**13.9**	30.0
Other payables	**15.5**	16.3
	29.4	46.3

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

18. Provisions for other liabilities and charges

	£m
At 1 April 2014	22.8
Provision released in relation to profits in associated undertakings	(0.4)
Provision created in relation to dilapidation claims	0.2
Utilisation of onerous contract provision	(4.7)
Provision released in relation to an onerous contract	(9.1)
At 1 April 2015	8.8
Provision released in relation to profits in associated undertakings	(5.7)
Provision created in relation to dilapidation claims	0.2
Provision released in relation to an onerous contract	(0.2)
Other provision movements	(0.9)
At 31 March 2016	**2.2**

Provisions include £0.1m (2015: £0.5m) in relation to expected losses from the contract to provide sewerage services to the City of Bridgeport in Connecticut, US. The contract terminated in December 2013. The remaining provision of £0.1m to be utilised as termination costs on the contract are incurred.

In addition provisions include £0.5m (2015: £6.2m) in relation to losses relating to certain associated undertakings (note 13) and £1.1m (2015: £0.9m) in relation to the expected cost of rectification work at the end of a property lease held by the Group.

19. Deferred income tax liabilities

	Property, plant and equipment	Provisions	Revaluation reserve	Fair value adjustment of infrastructure assets	Roll-over relief	Financial instruments	Pension obligations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2014 (restated)	499.2	-	3.4	306.7	0.7	(279.9)	(18.1)	512.0
Transfer	47.4	-	-	(47.4)	-	-	-	-
Charge/(credit) to income statement	45.9	-	-	(0.1)	-	(73.0)	1.2	(26.0)
Charge/(credit) to equity	-	-	-	46.8	-	(1.2)	(0.2)	45.4
At 1 April 2015 (B/F)	592.5	-	3.4	306.0	0.7	(354.1)	(17.1)	531.4
Transfer	(0.6)	-	-	0.3	-	0.2	0.1	-
(Credit)/charge to income statement	(68.7)	3.4	-	(40.2)	(0.1)	56.8	1.8	(47.0)
(Credit)/Charge) to equity	-	-	(0.3)	(4.7)	-	0.8	26.1	21.9
At 31 March 2016	**523.2**	**3.4**	**3.1**	**261.4**	**0.6**	**(296.3)**	**10.9**	**506.3**

The Group has unrecognised capital losses of £3.9m (2015: £16.9m) 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 2016 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 14.6% of pensionable pay. The Group also paid lump sum deficit contributions of £1m per month in the year to 31 March 2016.

An accrual for unfunded benefits of £8.6m has been included in the Group's financial statements at 31 March 2016 (2015: £9.1m).

20. Pensions (continued)

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:

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 2.8% per annum. In periods when actual inflation is higher than 2.8%, the Group will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the principal subsidiary of the Group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

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 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.

20. Pensions (continued)

	2016	2015
	%	%
Inflation (RPI)	**2.85**	2.95
Inflation (CPI)	**1.85**	2.05
Rate of increase in salaries	**3.85**	3.95
Discount rate for scheme liabilities	**3.55**	3.30
Life expectancy for a male pensioner aged 60 (in years)	**26.50**	26.60
Projected life expectancy at age 60 for male aged 40 (in years)	**28.40**	28.50

(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.

	2016	2015
	£m	£m
Fair value of scheme assets		
Equities	**197.1**	203.7
Bonds	**211.0**	370.8
Property	**75.7**	74.8
Other	**786.9**	659.1
Total value of assets	**1,270.7**	1,308.4
Present value of scheme liabilities	**(1,212.6)**	(1,395.9)
Post employment benefit surplus/(deficit)	**58.1**	(87.5)

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.

20. Pensions (continued)

(iv) Analysis of the amounts included within the financial statements

	2016	2015
	£m	£m
Analysis of amount charged to operating costs:		
Current service cost	**16.0**	13.5
Past service cost	**1.1**	0.3
Net interest cost on pension scheme	**2.4**	3.7
Administrative expenses and taxes	**1.9**	1.9
Amounts charged to the income statement before taxation	**21.4**	19.4
Analysis of amounts recognised in Group statement of comprehensive income:		
Return on plan assets (excluding interest income)	**64.5**	(209.8)
Effect of changes in demographic assumptions	**(45.1)**	(2.5)
Effect of experience adjustments	**(75.1)**	-
Effect of changes in financial assumptions	**(78.5)**	211.4
Actuarial gain recognised in the Group statement of comprehensive income	**(134.2)**	(0.9)
Total defined benefit (income)/cost recognised in the income statement and statement of comprehensive income	**(112.8)**	18.5

Actuarial gains and losses are recognised as they occur in the Group statement of comprehensive income.

The total contributions to the defined benefit and defined contribution plans in the year ending 31 March 2017 are expected to be £25.3m for the Group (2016: £24.0m).

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2016, a cumulative pre-tax loss of £24.3m (2015: £158.5m) had been recorded directly in the statement of comprehensive income.

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

	2016	2015
	£m	£m
Movements in the defined benefit obligation		
At 1 April	**(1,395.9)**	(1,161.3)
Current service cost	**(16.0)**	(13.5)
Interest expense	**(45.3)**	(51.9)
Remeasurements:		
Actuarial gains – demographic assumptions	**45.1**	2.5
Actuarial gains/(losses) – financial assumptions	**78.5**	(211.4)
Actuarial gains – experience adjustments	**75.1**	-
Benefits paid	**47.1**	40.1
Past service cost	**(1.1)**	(0.3)
Plan participants' contributions	**(0.1)**	(0.1)
At 31 March	**(1,212.6)**	(1,395.9)

The total defined benefit obligation comprises:

Amounts owing to active members	**(323.9)**	(538.0)
Amounts owing to deferred members	**(221.2)**	(294.9)
Amounts owing to retired members	**(667.5)**	(563.0)
Total defined benefit obligation at 31 March	**(1,212.6)**	(1,395.9)

	2016 **£m**	2015 £m
Changes in the fair value of scheme assets:		
At 1 April	**1,308.4**	1,068.3
Return on plan assets (excluding interest income)	**(64.5)**	209.8
Interest income	**42.9**	48.2
Employer contributions	**32.8**	24.0
Plan participants' contributions	**0.1**	0.1
Benefits paid	**(47.1)**	(40.1)
Administrative expenses paid from plan assets	**(1.9)**	(1.9)
At 31 March	**1,270.7**	1,308.4

The net amount is presented in the balance sheet under non-current assets (2015 - 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.

(vi) Sensitivity analysis (continued)

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.

Analysis of the impact on the net balance sheet position:

	Base 2016	**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**
	£m	£m	£m	£m	£m	£m
Fair value of scheme assets	1,270.7	1,270.7	1,270.7	1,270.7	1,270.7	1,270.7
Present value of defined benefit obligation	(1,212.6)	(1,264.6)	(1,163.9)	(1,168.9)	(1,259.1)	(1,248.2)
Surplus in the scheme	58.1	6.1	106.8	101.8	11.6	22.5

20. Pensions (continued)

Actuarial assumptions used in sensitivity analysis:

	2016	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	3.55	3.30	3.80	3.55	3.55	3.55
Rate of RPI assumption	2.85	2.85	2.85	2.60	3.10	2.85
Rate of CPI assumption	1.85	1.85	1.85	1.60	2.10	1.85
Rate of salary increase	3.85	3.85	3.85	3.60	4.10	3.95

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 includes 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:

	2016 Years	2015 Years
Duration of the defined benefit obligation	17	20

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

	£m
Within 12 months	41.3
Between 1 and 2 years	42.2
Between 2 and 3 years	43.1
Between 3 and 4 years	44.1
Between 4 and 5 years	45.1
Between 5 and 10 years	241.1

20. Pensions (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 2016 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 three-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 2016 was £3.1m (2015: £2.8m).

21. Equity shares

	Equity shares		Preference shares		Share premium	Total
	Number	1p shares	Number	£1 shares		
		£		£	£	£
Allotted, called up and fully paid						
As at 31 March 2014	190,000	1,900	595,111,075	595,111,075	70,602,342	665,715,317
Redeemed during year	-	-	-	-	-	-
As at 31 March 2015	190,000	1,900	595,111,075	595,111,075	70,602,342	665,715,317
Redeemed during year	-	-	(10,580,000)	(10,580,000)	-	(10,580,000)
As at 31 March 2016	**190,000**	**1,900**	**584,531,075**	**584,531,075**	**70,602,342**	**655,135,317**

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:

	2016 Less than one year £m	**2016 More than one year £m**	**2016 Total £m**	2015 Less than one year £m	2015 More than one year £m	2015 Total £m
Derivative financial assets:						
Fixed to floating interest rate swaps	**-**	**48.5**	**48.5**	-	39.0	39.0
Combined cross currency interest rate swaps	**-**	**42.3**	**42.3**	-	28.8	28.8
	-	**90.8**	**90.8**	-	67.8	67.8
Financial liabilities:						
Finance lease interest swaps	**-**	**(24.9)**	**(24.9)**	-	(24.2)	(24.2)
Index linked swaps	**-**	**(1,579.6)**	**(1,579.6)**	-	(1,708.6)	(1,708.6)
Combined cross currency interest rate swaps	**-**	**(5.4)**	**(5.4)**	-	(6.5)	(6.5)
Derivative financial instrument on energy contracts	**-**	**(10.0)**	**(10.0)**	-	-	-
Fixed to floating interest rate swaps	**-**	**-**	**-**	-	-	-
Other interest rate swaps	**-**	**(31.5)**	**(31.5)**	-	(32.3)	(32.3)
	-	**(1,651.4)**	**(1,651.4)**	-	(1,771.6)	(1,771.6)
Net debt:						
Cash and short term deposits	**77.6**	**-**	**77.6**	82.0	-	82.0
Borrowings	**(169.2)**	**(5,823.2)**	**(5,992.4)**	(146.6)	(5,748.2)	(5,894.8)
	(91.6)	**(5,823.2)**	**(5,914.8)**	(64.6)	(5,748.2)	(5,812.8)

Cash and short term deposits were invested with a range of counterparties; either AAA rated sterling liquidity funds or banks with a rating of at least long term A, short term A1/P1, in accordance with approved investment guidelines.

The Group has recognised a liability for the mark to market loss of £1,734.3m (2015: £1,858.3m) on index linked swaps. £1,579.6m (2015: £1,708.6m) is shown as index linked swaps as in the table above; the remaining £154.7m (2015: £149.7m) is shown within borrowings in note 16.

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

The interest rate risk profile of the Group's financial assets and liabilities at 31 March 2016 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.

22. Financial instruments (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	-	-	-	0.0	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	110.8	15.5	-	-	-	-	126.3
	167.3	15.5	-	-	-	-	182.8

22. Financial instruments (continued)

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

Year ended 31 March 2015

	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	**41.2**	**39.9**	**38.8**	**27.8**	**27.4**	**75.6**	**250.7**
Guaranteed bonds	**134.4**	**134.4**	**559.2**	**107.4**	**571.1**	**2,302.5**	**3,809.0**
US Dollar bonds	**11.3**	**11.3**	**11.3**	**39.4**	**10.4**	**284.4**	**368.1**
Other interest rate swaps	**4.8**	**4.4**	**4.0**	**3.9**	**3.9**	**32.5**	**53.5**
Finance lease swaps	**2.3**	**2.2**	**2.0**	**1.9**	**1.9**	**20.7**	**31.0**
	194.0	**192.2**	**615.3**	**180.4**	**614.7**	**2,715.7**	**4,512.3**
Floating rate							
Index linked guaranteed bonds	**24.7**	**24.7**	**24.7**	**24.7**	**24.7**	**1,753.7**	**1,877.2**
US Dollar bonds	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**78.8**	**84.8**
Guaranteed bonds	**9.6**	**9.6**	**9.6**	**9.6**	**9.6**	**312.3**	**360.3**
Bank loans	**12.3**	**13.3**	**92.1**	**26.8**	**27.3**	**211.5**	**383.3**
Combined cross currency interest rate swaps	**7.4**	**7.4**	**7.4**	**7.4**	**7.4**	**19.0**	**56.0**
Eurobonds issued by Kelda Eurobond Co Limited	**81.6**	**85.8**	**1,154.0**	**-**	**-**	**-**	**1,321.4**
Index linked swaps	**51.4**	**31.8**	**116.5**	**57.2**	**31.8**	**1,656.9**	**1,945.6**
Fair value interest rate swaps	**9.0**	**9.0**	**9.0**	**9.0**	**9.0**	**106.5**	**151.5**
Finance leases	**49.4**	**113.6**	**11.7**	**15.6**	**20.1**	**100.6**	**311.0**
	246.6	**296.4**	**1,426.2**	**151.5**	**131.1**	**4,239.3**	**6,491.1**
Non-interest bearing financial liabilities							
Trade payables	**65.0**	**-**	**-**	**-**	**-**	**-**	**65.0**
Other payables	**352.1**	**-**	**-**	**-**	**-**	**-**	**352.1**
	417.1	**-**	**-**	**-**	**-**	**-**	**417.1**

(b) Financial risks

Capital risk management

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

When monitoring capital risk, the Group considers its interest cover measures and its gearing and the ratio of net debt to RCV.

Centrally managed funds are invested entirely 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 by Standard and Poor's, Fitch and Moody's respectively.

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

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

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

	Group		**Company**	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash and short term deposits (see note 16)	**77.6**	82.0	**-**	-
Trade and other receivables (see note 15)	**208.2**	197.5	**-**	-
Financial assets	**90.8**	67.8	**-**	-
Investments	**1.2**	11.6	**750.0**	750.0

Liquidity risk

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

The Group looks to manage its liquidity by ensuring debt is held with a range of durations and the maturity profile is actively managed by the Group’s treasury function. Existing bank covenants

22. Financial instruments (continued)

(b) Financial risks (continued)

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 2016 the Group had £891.6m of available liquidity (2015: £991.1m) which comprised £77.6m in available cash and short term deposits (2015: £82.0m) and £814.0m of undrawn committed borrowing facilities (2015: £909.1m).

The maturity profile on page 137 represents the forecast future contractual principal and interest cashflows in relation to the Group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

Market risk

Market risk is the risk that movements in market conditions, including inflation and interest rates will impact materially on the Group financial performance. The Group's exposure to market risks primarily results from its financial arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

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

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

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

Impact on profit before tax	**2016 £m**	2015 £m
1% increase in RPI leading to a decrease in profit	**(31.1)**	(28.6)
1% decrease in RPI leading to an increase in profit	**31.1**	28.6
1% increase in LIBOR leading to an increase in profit	**(10.5)**	(9.0)
1% decrease in LIBOR leading to a decrease in profit	**4.5**	8.5

22. Financial instruments (continued)

(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
	2016	2015				
1) Interest rate swaps, combined cross-currency swaps, fixed rate bonds, indexed linked swaps	Assets – £90.8m; Liabilities (designated for hedging) – £542.1m ; and Liabilities (not designated for hedging) – £540.6m	Assets – £67.8m Liabilities (designated for hedging) – £549.8m ; and Liabilities (not designated for hedging) – £894.1m	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) – £1,240.1m	Liabilities (not designated for hedging) – £1,020.7m	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 17% of the fair value of level 3 instruments, equalling a total of £472.7m 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 2016 and 2015.

	2016 Level 1 £m	**2016 Level 2 £m**	**2016 Level 3 £m**	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m
Primary financial instruments financing the Group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	**(77.6)**	**-**	**-**	(82.0)	-	-
Financial assets from concession arrangements	**(152.3)**	**-**	**-**	(156.8)	-	-
Loans to associates/joint ventures	**(0.3)**	**-**	**-**	(10.4)	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	**-**	**(48.5)**	**-**	-	(39.0)	-
Cross-currency interest rate swaps	**-**	**(42.3)**	**-**	-	(28.8)	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	**-**	**24.9**	**-**	-	24.2	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	**-**	**5.4**	**-**	-	6.5	-
Fixed rate US Dollar bonds	**-**	**285.0**	**-**	-	313.9	-
Fixed rate AU Dollar bonds	**-**	**33.7**	**-**	-	28.4	-
Fixed rate Sterling bonds	**247.2**	**179.1**	**-**	266.2	201.4	-
Fixed to floating interest rate swaps	**-**	**38.9**	**-**	-	-	-
Index linked swaps	**-**	**494.2**	**1,289.6**	**-**	837.6	1,020.7
Energy derivative	**-**	**9.9**	**-**	-	-	-
Designated as Fair Value Through Other Comprehensive Income						
Other interest rate swaps	**-**	**31.5**	-	-	32.3	-
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	**2,465.0**	**18.4**	**-**	2,546.8	18.8	**-**
Index linked sterling bonds	**383.8**	**974.8**	**-**	393.8	1,032.1	-

22. Financial instruments (continued)

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

Reconciliation of Level 3 fair value measurements of financial liabilities:

	RPI swaps £m	Total £m
Balance at 1 April 2015	**1,020.7**	**1,020.7**
Total gains or losses:		
- in profit or loss	**225.1**	**225.1**
Settlements	**(16.8)**	**(16.8)**
Transfers into Level 3	**11.1**	**11.1**
Balance at 31 March 2016	**1,240.1**	**1,240.1**

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2016:

	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	26.0	(26.0)
10 basis point change to credit curve assumption	53.0	(53.0)

Inflation linked swaps

The Company holds a number of index linked swaps, with a notional value of £1,289.0m. There are three cashflows 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 profit and loss account and recognised within long-term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short-term, these swaps gave rise to a fair value liability of £1,734.3m (2015: £1,858.3m) at the year end date. Of this £154.7m (2015: £149.7m) has been recognised within long-term borrowings, and represents the discounted value of the RPI “bullet” accrued to 31 March 2016. The remaining £1,579.6m is recognised within other financial liabilities. The RPI “bullet” accrued to 31 March 2016 was £241.5m (2015: £234.8m) which has been reduced by £86.8m (2015: £85.1m) when discounted to present values.

22. Financial instruments (continued)

Under the index linked swaps, Yorkshire Water has contracted to pay a fixed rate on an inflation accreting notional and in return receives 6 month GBP LIBOR on a semi-annual basis. The contractual obligations of approximately two thirds of Yorkshire Water's portfolio of index linked swaps require Yorkshire Water to pay the inflation accretion of the notional amount at maturity as a single "bullet" payment. The remaining (ie one third) require Yorkshire Water to make periodic payments of the inflation accretion on the notional amount throughout the life of each swap.

This payment profile at maturity increases the potential credit exposure for the counterparties involved. In order to mitigate this credit exposure, a number of these swaps are subject to mandatory termination clauses ("MTC"). Under the MTC the inflation linked swaps will automatically be terminated for a cash settlement amount at each MTC date unless both Yorkshire Water and the respective counterparty agree to extend the MTC date or restructure the existing transactions.

As at 31 March 2015 Yorkshire Water's portfolio of index linked swaps had a total fixed notional value of £1,289m and a total fair value liability of £1,858.3m. Of this amount approximately 35% of the total notional value was subject to MTCs. As at 31 March 2016 Yorkshire Water's portfolio of index linked swaps had a total fixed notional of £1,289m and a total fair value liability of £1,771.5m. Of this amount approximately 23% of the total notional of the portfolio was subject to MTCs (with the mandatory breaks occurring in February 2020, February 2023 and February 2025).

During the reporting period Yorkshire Water executed a number of transactions with various counterparties to restructure a portion of Yorkshire Water's index linked swap portfolio with a total fixed notional value of £160 million which removed the MTCs effective in February 2018.

The transactions removed the MTCs in return for an increase in the fixed real rate and this gave rise to an increase in the net mark to market at execution of £50.8m which is to be recognised in the income statement over the remaining life of the inflation linked swaps.

In addition £36.3m of the inflation accretion outstanding was paid down by Yorkshire Water through this process. As at 31 March 2015, £20m of the total fixed notional had been novated and £19.6m of the inflation accretion outstanding had been paid down by Yorkshire Water, with the remaining £140m of fixed notional being novated on 4 June 2015 and an additional £16.7m of inflation accretion paid on that date.

The novation of the inflation linked swaps and the removal of the MTC and compensating increase in the real rate coupon completed on 4 June 2015.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2016 includes a funding valuation adjustment, credit valuation adjustment or debit valuation adjustment where appropriate to reflect the long term credit risk of Yorkshire Water's index linked swap portfolio.

22. Financial instruments (continued)

Interest rate swaps

Income from the movement in fair value of combined cross currency interest rate swaps of £14.6m was recognised in the income statement (2015: £53.0m), offset by the change in fair value of the associated bonds of £18.3m (2015: £48.8m). Of the change in fair value of associated bonds, £17.3m (2015: £47.8m) relates to Fixed US Dollar bonds. The remaining £1.0m (2015: £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 £9.4m was recognised in the income statement (2015: £68.3m), offset by the change in fair value of the associated bonds of £1.4m (2015: £63.5m). £3.4m charge (2015: £38.1m credit) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £265.8m (2015: £266.2m) at 31 March 2016. £2.6m (2015: £15.2m) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £104.7m (2015: £101.5m) at 31 March 2016. The remaining £2.2m (2015: £10.2m) change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond with a fair value of £102.4m (2015: £99.9m) at 31 March 2016. 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 £0.7m were recognised in the income statement as an exceptional item (2015: £8.6m).

(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 Ltd net debt (a subsidiary of Kelda Finance (No.1) Ltd) to be in fixed or index linked form. At the financial year end the proportions at Yorkshire Water Services Ltd and Kelda Finance (No.1) Ltd was 105% and 103% respectively (2015: 110% and 105%).

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

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

The nominal value of index linked swaps total £1,289.0m and have an average life (excluding mandatory breaks) of 24 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.

22. Financial instruments (continued)

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.

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 made a recognised and asset of £42.3m (2015: £28.8m) for the mark to market gain in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £17.3m (2015: £29.1m) 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 £5.4m (2015: £6.5m) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £1.1m (2015: £5.3m gain) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The Group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has recognised an asset of £22.8m (2015: £17.3) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £3.4m (2015: £19.2m 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)

The Group has a £90m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate 2033 bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has recognised an asset of £14.7m (2015: £12.5m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £2.6m (2015: £12.5m) 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 £90m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate 2029 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 £10.9m (2015: 9.2m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £2.1m (2015: £10.3m) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

Foreign currency risk management

The Group has a number of long term interest bearing liabilities denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising combined cross currency interest rate swaps.

23. 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 2014 £m	Non cash movements £m	Cash movements £m	At 31 March 2015 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2016 £m**
Cash and cash equivalents	78.3	-	3.7	82.0	**-**	**(4.4)**	**77.6**
Debt due within one year	(263.4)	-	150.9	(112.5)	**-**	**(19.5)**	**(132.0)**
Finance leases due within one year	(28.9)	-	(5.2)	(34.1)	**-**	**(3.1)**	**(37.2)**
	(292.3)	-	145.7	(146.6)	**-**	**(22.6)**	**(169.2)**
Debt due after one year	(5,241.2)	(272.7)	(34.4)	(5,548.3)	**(146.2)**	**33.9**	**(5,660.6)**
Finance leases due after one year	(234.0)	-	34.1	(199.9)	**-**	**37.3**	**(162.6)**
	(5,475.2)	(272.7)	(0.3)	(5,748.2)	**(146.2)**	**71.2**	**(5,823.2)**
Net debt relating to continuing activities	(5,689.2)	(272.7)	149.1	(5,812.8)	**(146.2)**	**44.2**	**(5,914.8)**
Total net debt	(5,689.2)	(272.7)	149.1	(5,812.8)	**(146.2)**	**44.2**	**(5,914.8)**

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

	2016 £m	2015 £m
Loss from continuing operations before taxation	**(371.3)**	(332.0)
Share of associates' and joint ventures' (profit)/loss after tax	**0.3**	(0.5)
Finance income	**(23.3)**	(22.8)
Finance costs	**389.9**	404.6
Exceptional finance (income)/costs (non-cash)	**(132.7)**	369.5
Movement of fair value of derivative financial instrument (energy contracts)	**10.0**	(6.4)
Depreciation and amortisation of capital grants	**283.9**	233.2
Amortisation of capitalised bid costs	**4.9**	0.9
Profit on disposal of Joint Venture	**(4.2)**	-
Profit on disposal of property, plant and equipment	**(2.8)**	(2.2)
Impairment of goodwill	**400.0**	-
Impairment of property, plant and equipment	**35.0**	1.2
(Increase)/decrease in inventories	**(0.7)**	(0.9)
Increase in trade and other receivables	**(8.9)**	(4.5)
Increase in trade and other payables	**10.2**	19.2
Pension contributions in excess of operating costs	**(13.8)**	(8.3)
Movements in provisions	**0.3**	(14.0)
Other movements	**0.5**	(0.5)
Cash generated from continuing operations	**577.3**	636.5

25. Commitments

	2016 £m	2015 £m
Contracts placed at 31 March	**347.6**	279.2

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:

	2016 Land and buildings £m	**2016 Other £m**	2015 Land and buildings £m	2015 Other £m
No later than 1 year	**1.7**	**1.4**	1.6	2.2
Later than 1 year and no later than 5 years	**5.6**	**1.1**	6.3	1.6
Later than 5 years	**0.9**	**-**	1.7	-
	8.2	**2.5**	9.6	3.8

26. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders. These loans are included in investments analysed in note 13.

	Loans (from)/to related parties 2016 £m	Loans (from)/to related parties 2015 £m
Joint ventures		
KeyLandmark Limited	**-**	-
Micklefield Properties Limited	**0.2**	0.1
Whitehall Landing Limited	**(0.3)**	(0.3)
Whinmoor Limited	**0.6**	0.6
Templegate Developments Limited	**(0.5)**	(0.7)
KeyLand Gregory Limited	**0.3**	0.3
Aire Valley Land LLP	**-**	10.4
	0.3	10.4

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £nil (2015: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2016 the Group made provisions totalling £0.5m for doubtful debts relating to amounts owed by related parties (2015: £6.2m).

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):

	2016 £m	2015 £m
Short-term benefits	**2.8**	2.9
Post-employment benefits	**0.1**	0.1
	2.9	3.0

27. Subsidiary companies

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Water services				
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Alpha) Limited	Northern Ireland	UK	Ordinary	100%
Dalriada Holdings Limited	Northern Ireland	UK	Ordinary	100%
Dalriada Water Limited	Northern Ireland	UK	Ordinary	100%
Kelda Water Services (Grampian) Limited	Scotland	UK	Ordinary	100%
Kelda Water Services (Defence) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Estates) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Projects) Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services (Knostrop) 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) Limted	England & Wales	UK	Ordinary	100%
The York Waterworks	England & Wales	UK	Ordinary	100%
Kelda Water Services (Retail) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Wales) Limited	England & Wales	UK	Ordinary	100%
Aberdeen Environmental Services (Holdings) Limited	Scotland	UK	Ordinary	100%
Aberdeen Environmental Services Limited	Scotland	UK	Ordinary	100%
Other activities				
KeyLand Developments Limited	England & Wales	UK	Ordinary	100%
KeyLand Investment Properties 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	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 9 Pension Trustees Limited	England & Wales	UK	Ordinary	100%
Ridings Insurance Company Limited	England & Wales	UK	Ordinary	100%
Rockford debt Collections Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Projects Limited	England & Wales	UK	Ordinary	100%
Glandwr Cyfngedig	England & Wales	UK	Ordinary	100%
Kelda Group 4 Inc	USA	USA	Ordinary	100%
KGI Bridgeport Company	USA	USA	Ordinary	100%
Topencounters Limited	England & Wales	UK	Ordinary	100%

27. Subsidiary companies (continued)

Templegate 19 developments Limited	England & Wales	UK	Ordinary	100%
Hamsards 2595 Limited	England & Wales	UK	Ordinary	100%
Springswood 1 Limited	England & Wales	UK	Ordinary	100%
The Courtyard (Midpoint) Management Company Limited	England & Wales	UK	Ordinary	100%
Rampart 11 Developments Limited	England & Wales	UK	Ordinary	100%
Holding and finance companies				
Kelda Group Limited	England & Wales	UK	Ordinary	100%
Kelda Eurobond Co Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Holdings Limited	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	Cayman Islands	UK	Ordinary	100%
Yorkshire Water Services Bradford Finance Limited	Cayman Islands	UK	Ordinary	100%
Kelda Finance (No.1) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) PLC	England & Wales	UK	Ordinary	100%

28. Ultimate controlling party

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

Company balance sheet

	Notes	**2016 £m**	2015 £m
Fixed assets			
Investments	3	**750.0**	750.0
Creditors: amounts falling due within one year	4	**(74.3)**	(72.3)
Net current liabilities		**(74.3)**	(72.3)
Total assets less current liabilities		**675.7**	677.7
Net assets		**675.7**	677.7
Capital and reserves			
Called up share capital	5	**655.1**	665.7
Profit and loss account	5	**20.6**	12.0
Total shareholders' funds		**675.7**	677.7

The financial statements on pages 154 to 158 were approved by a duly authorised committee of the board of directors on 4 November 2016 and signed on its behalf by:

Liz Barber
Director
Kelda Holdings Limited

Registered Number: 99329

Kelda Holdings Limited
Company statement of changes in equity
for the year ended 31 March 2016 *Registered Number: 99329*

	Ordinary shares £m	Preference shares £m	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2014	-	665.7	13.8	679.5
Loss for the year	-	-	(1.8)	(1.8)
At 1 April 2015	-	665.7	12.0	677.7
Profit for the year	-	-	8.6	8.6
Shares redeemed in the year	-	(10.6)	-	(10.6)
At 31 March 2016	**-**	**655.1**	**20.6**	**675.7**

Notes to the Company financial statements

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 (Jersey) Law 1991. 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 have been prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Western House, Halifax Road, Bradford, BD6 2SZ.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliation for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The going concern basis has been applied in these financial statements. The accounting policies shown below have been applied consistently throughout the current and prior year.

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

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date, subject to the following:

- provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted.

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

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

2. Loss attributable to the parent company

The result of the parent company was a profit of £8.6m (2015: £1.8m loss). Advantage has been taken of the exemption available under Companies (Jersey) Law 1991 not to present a profit and loss account for the Company alone. The parent company profit and loss account was approved by a duly authorised committee of the board of directors on 4 November 2016.

3. Investments

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total investments in Group undertakings £m
Cost			
At 31 March 2015	750.0	-	750.0
At 31 March 2016	**750.0**	**-**	**750.0**

A list of the subsidiaries of the Company can be found on pages 152 and 153. The directors believe that the carrying value of the investments is supported by their underlying net assets.

4. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**74.3**	72.3
	74.3	72.3

Amounts owed to subsidiary undertakings include loans repayable on demand of £73.8m (2015: £71.8). Interest is charged at LIBOR +2.0% (2015: +7%) margin.

5. Reconciliation of movement in shareholders' funds

	Called up share capital £m	Profit and loss account £m	Total shareholders' funds £m
Shareholders' funds at 31 March 2014	665.7	13.8	679.5
Redemption of preference shares	-	-	-
Loss for the financial year	-	(1.8)	(1.8)
Shareholders' funds at 31 March 2015	665.7	12.0	677.7
Profit for the financial year	-	8.6	8.6
Redemption of preference shares	(10.6)	-	(10.6)
Shareholders' funds at 31 March 2016	**655.1**	**20.6**	**675.7**

6. Other information

The Company had no employees at 31 March 2016 (2015: none).

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

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

7. Ultimate controlling party

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

Independent auditors' report to the members of Kelda Holdings Limited

Our opinion
In our opinion, Kelda Holding Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited
Kelda Holdings Limited's financial statements comprise:

- the balance sheet as at 31 March 2016; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework.

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

Other matters on which we are required to report by exception

Accounting records and information and explanations received
Under the Companies (Jersey) Law 1991 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
- proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

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 Directors' Responsibilities Statement set out on page 76, 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 Article 113A of the Companies (Jersey) Law 1991 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.

Arif Ahmad
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
4 November 2016