*Registered Number: 99329*

# KELDA HOLDINGS LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2015

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**Contents**

## 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 (YW)***
YW is the principal UK subsidiary of the Group, providing water and waste water services to more than 5.0 million people and 135,000 businesses. Every day, YW supplies around 1.3 billion litres of water to homes and businesses in Yorkshire. Through the efficient operation of its extensive waste water network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment.

Business strategy: YW'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.

***UK Service Operations***
*Kelda Water Services Limited (KWS)*
KWS is a major participant in the UK water and waste water contract operations market, with its subsidiaries operating contracts during the year 2014/15 in the UK.

Business strategy:

- Leveraging the value from Group assets and skills;
- Maximising value from our existing business; and
- Continuing to grow through new opportunities in the water, waste water and related markets.

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

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.

## 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:

**Trusted company –** The way the Group does business means its products, services and promises are trusted by all our stakeholders, now and in the future.

**Safe Water –** The Group works safely to protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

**Excellent catchments, rivers and coasts –** The Group maintains and improves the water environment from source to sea, and influences others to do the same.

**Water efficient regions –** The Group ensures water needs are met now and in the future by using water wisely and inspiring others to do the same.

**Sustainable resources –** The Group is efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

**Strong financial foundations –** The Group delivers services to customers at a price they are willing and able to pay, whilst providing investors with returns that attract long-term investment.

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

## BUSINESS PERFORMANCE

***Yorkshire Water Services Limited (YW)***

YW 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 Strategic Business Objectives (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.

Reported under each SBO is:

- A table showing performance against the Office of Water Services' (Ofwat) Key Performance Indicators (KPIs) for the water industry. More information on these measures and performance in the Risk and Compliance Statement, available at: www.yorkshirewater.com/reports

- A table showing YW's progress against a suite of annual targets that YW set itself as part of its drive to achieve its vision and go beyond its regulatory duties. Arrows are used to show the trend in annual performance in the context of its long-term goals:

| Progression towards long-term goals | Overall trend of progression with annual fluctuation | Stable | Regression from long-term goals |
|---|---|---|---|

- A commentary on the matters that are material to YW recent performance, future direction, risks and uncertainties.

### STRATEGIC BUSINESS OBJECTIVE – TRUSTED COMPANY

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

| Measures of our regulatory commitments | 2013/14 performance | 2014/15 target | 2014/15 performance |
|---|---|---|---|
| Service Incentive Mechanism, SIM<br>(Overall score) | 82 | ≥84 | 85 |
| Serviceability – water infrastructure<br>(Stable / Improving / Marginal / Deteriorating) | Stable | Stable | Stable |
| Serviceability – water non-infrastructure<br>(Stable / Improving / Marginal / Deteriorating) | Stable | Stable | Stable |
| Serviceability – sewerage infrastructure<br>(Stable / Improving / Marginal / Deteriorating) | Stable | Stable | Stable |
| Serviceability – sewerage non-infrastructure<br>(Stable / Improving / Marginal / Deteriorating) | Stable | Stable | Stable |

Ofwat define their Key Performance Indicators for the water industry on their website, at:
http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

| Measures of our ambition to go beyond our regulatory duties | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| Achieve a "Colleague Trust" score of 7 out of 10 in our internal survey. | Annual average score increased to 6.7, up from 6.5 last year. This follows improvements to, for example, colleague communications, visibility of leadership, problem resolution, greater employee recognition and partnership working with trade unions. This remains below target and hence further focus will continue. | ⇧ |
| Achieve 4 stars in the Business in the Community Corporate Responsibility Index. | Our improvements have enabled us to increase to 4.5 stars. We are aiming to achieve five stars within two years. | ⇧ |
| Continue developing towards "integrated reporting" by externally reporting on our priority economic, environmental and social aspects. | We continue to embed sustainability throughout our reporting and decision making, sharing our performance transparently in this report. Our first integrated annual report, published last year, received positive feedback and we have made advances in this, our second, integrated annual report. | ⇧ |
| Document our plan to achieve an externally recognised standard of best practice in transparent triple bottom line reporting. | | ⇧ |
| Have face to face meetings with Kelda Group's 90 most important stakeholders. | We engaged with all of our most important stakeholders in 2014/15, including for example our regional MPs and Councillors. We held face to face meetings with the vast majority, more than once with several stakeholders. | ⇧ |

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 3.

**Delivering leading customer service**
In January 2015 YW were recognised as the leader in customer service in the utilities sector by the Institute of Customer Service.

The Service Incentive Mechanism (SIM) is a water industry measure of customer service developed by our regulator, Ofwat. Individual company price controls for the period to 2020 were adjusted based on average comparative SIM performance for the periods 2011/12 to 2013/14. The SIM was not measured for price control purposes in 2014/15 and therefore no industry comparisons can be made. However, we decided to continue to measure customer service in 2014/15 based on the SIM methodology. Our performance improved, scoring 85 points out of 100 in 2014/15, compared to 82 points in 2013/14. Through our own analysis we estimated a relative ranking of $6^{th}$ in the sector. It is a business priority to continue improving our SIM score and relative performance, striving to be first in the SIM by 2020.

We continue with our programme of customer service improvements. For example, YW have implemented a new website based on extensive analysis of customer expectation. The website will help customers to more easily access the information they want in a format suitable to them. In response to customer demand our aim is to increase the levels of self-service functionality that our website can offer, starting with how our customers can pay their bill online and through a mobile app. We will also be using the new website to enhance the quality and format of information we provide for customers and stakeholders.

The Water Act 2014 is introducing greater retail competition in the water industry, enabling all business, charity and public sector customers to switch their water and waste water supplier. We recognise that this presents both opportunities and threats to our business and we are monitoring national developments closely as we continue to prepare for the new retail operating regime. We consider the Water Act 2014 in further detail in the strong financial foundations SBO section later in this report.

**Serviceablity - Ensuring reliable services today and for the future**
YW invest over a million pounds a day to maintain and enhance the assets and infrastructure we manage to ensure reliable services to our customers. In 2014/15 we achieved “stable serviceability” in all four asset categories for the third year running. Serviceability is a measure used by the water industry to demonstrate the effectiveness of asset maintenance.

Our services are highly reliable, for example YW 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 (for example).
Extreme weather, terrorism and other significant events could damage our assets, interrupt services, threaten human safety and pollute the environment. For our business, this can affect colleague and customer wellbeing, our operations, reputation and increase our costs. We manage risks to all hazards through our corporate and operational risk management processes which have worked well through numerous emergency events in recent years. We have extensive emergency plans to enable a fast and effective response and recovery. Our Incident Management Framework provides a staged response to ensure the effective allocation of resource to any incident.

We undertake long-term planning to prepare for challenges including population growth, climate change and decreasing availability of resources. For example, in 2014 YW published the final version of our latest 25 year Water Resources Management Plan (WRMP). We discuss our WRMP further in the water efficient regions SBO section later in this report.

In addition to providing information about the risks we observe to our services throughout this report, you can also find more information in our Risk and Compliance Statement. The Statement provides further details on our serviceability performance and the material or potentially material risks to service identified by the Board. The Risk and Compliance Statement publication is available at:
www.yorkshirewater.com/reports

**STRATEGIC BUSINESS OBJECTIVE – SAFE WATER**

*The Group works safely to protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.*

| **Measures of our regulatory compliance** | **2013/14 performance** | **2014/15 target** | **2014/15 performance** |
|---|---|---|---|
| Internal sewer flooding (Number of incidents) | 76 | ≤118 | 121 |
| Water quality – overall compliance (Calendar year measure) | 99.96% | ≥99.95% | 99.94% |

Ofwat define their Key Performance Indicators for the water industry on their website, at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

| **Measures of our ambition to go beyond our regulatory duties** | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| Kelda Group to achieve the Occupational Health and Safety Assessment Series (OHSAS) Standard 18001. | On course to secure certification during 2015, an external audit has confirmed that our health and safety management system is fit for purpose for the standard. | ⇧ |
| *Service reservoir programme continuing to deliver improved water quality, with no more than 10 coliform sample failures. | 8 failures during the 2014 calendar year and we continue to drive improvement. | ⇧ |
| Inform our developing storm water management strategy by discussing our storm water policy with the Environment Agency (EA) and key local authorities. | We documented our policy statement and received positive feedback when engaging with external stakeholders. Our strategy is being drafted. | ⇧ |
| Establish the process by which we review, prioritise and recommend flood partnership investment, and make the EA and Local Authorities aware of the process to effectively engage with us. | Process and steering group established to lead our flood partnership, so far agreeing to co-fund three local flood management initiatives. | ⇧ |
| Raise £200,000 for WaterAid in the first year of our five year commitment to raise £1m. | Our colleagues have helped to raise over £279,000 for WaterAid in 2014/15, continuing our long standing support. | ⇧ |
| At least 25% of Kelda Group colleagues involved in a Safe Water participation and/or volunteering activity. | Over 27% of colleagues involved, including volunteering and charitable giving. | ⇧ |
| Colleagues will visit an Ethiopian town to share water quality and leakage control skills. | Our technicians visited Ethiopia in June 2015 and shared our expertise. Also supporting innovation to address specific local needs. | ⇧ |
| Incorporate safe water messages in our discussions with stakeholders, our education programme and our annual water efficiency campaign. | We launched the innovative Big Wish for Ethiopia in March 2015, in collaboration with WaterAid. We also included information in our communications to customers and stakeholders. | ⇧ |
| Document our detailed plans for Global Safe Water to 2020 and ambitions to 2040. Discuss with WaterAid and the Dep't for International Development. | | |

**Measures of our ambition to go beyond our regulatory duties (continued)**

<table>
<tr><th>2014/15 target</th><th>2014/15 performance</th><th>Overall trend</th></tr>
<tr><td>Publish our draft recreation strategy by 31/03/15, for consultation in 2015/16.</td><td rowspan="2">We have continued to develop our recreation strategy and we plan to engage the Customer Forum about our aim to increase the diversity of those taking value from our recreational activities.</td><td>⇧</td></tr>
<tr><td>Review existing stakeholder engagement groups to assess options to include recreational engagement matters.</td><td>⇧</td></tr>
</table>

* Regulatory requirement

The arrows show the trend of YW's annual performance in the context of its long-term goals. Further explanation is provided on page 3.

**Maintaining excellent drinking water quality**

Protecting public health is our primary duty. Drinking water quality within Yorkshire remains excellent with 99.94% of hundreds of thousands of samples meeting stringent regulatory standards. While this is near total compliance, this performance is lower than last year (99.96%) and behind the target we set ourselves for 2014 (99.95%). We strive for total compliance by working internally and with others. In particular, customers and the agricultural sector also have critical roles in determining performance against this measure.

We continue to see the benefits of the service reservoir inspection and improvement programme we undertook in 2013/14 and the new programme of inspections and remedial actions we have implemented more recently. The main area of non-compliance in 2014 related to metaldehyde, a pesticide used in slug control on arable crops. There is currently no effective process to remove metaldehyde from water supplies and we are researching possible future treatment options and working with the agricultural sector to minimise future risk.

There was an increase in the number of positive samples for bacteria taken from customer's premises which were shown to be due to the condition of the tap rather than that of the water being supplied. There was also an increased number of exceedences of the standard for lead in samples taken from customers' premises as a result in the change in standard for 2014 onwards. We are continuing our treatment of water to minimise the risk and our programme of lead communication pipe replacement is ahead of programme.

We have continued to work closely with the drinking water quality regulator, the Drinking Water Inspectorate (DWI), for example with one of our team joining the DWI on a six month secondment during 2014/15. Performance in the first few months of 2015 has seen no sample failures from service reservoirs and lower numbers from customers' premises. However, metaldehyde is generally a problem in the Autumn so it is too early to comment on the benefit of our activity there.

Further details on our water quality performance can be found in the Risk and Compliance Statement publication, available at:
www.yorkshirewater.com/reports

Over recent decades' raw water quality has deteriorated in many of our catchments, increasing the level of treatment we need to undertake to make water fit 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 an unacceptable risk to our customers. Our long-standing programme of capital investment will continue with further investment in the period from 2015 to 2020, including action at six large treatment works. We are also investing in catchment management as our primary long-term response to address the issue at source.

**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. Last year the region suffered from a number of flash flood events, the most significant of which was in August 2014 when the UK experienced the tail-end of the weather system which produced hurricane Bertha. Overall our assets performed well and we played a significant role in mitigating flooding and managing the impacts where flooding did occur.

In 2014/15, 121 incidents of sewer flooding inside properties were reported in the region, compared to 76 incidents in 2013/14 and 155 in 2012/13. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. In 2014/15 we removed 90 properties from being at risk of sewer flooding and reduced the overall number of properties at risk of sewer flooding on our regulated risk register to approximately 175 across the region.

The number of incidents in 2014/15 exceeded our target for no more than 118 incidents in the year. The Yorkshire region experienced exceptionally wet weather in August 2014, leading to an increase in the number of sewer flooding incidents recorded. This regulatory KPI is reported as Amber in our 2014/15 Risk and Compliance Statement. A summary of our action plan to further improve performance on internal sewer flooding is provided in the Statement, which is available at:
www.yorkshirewater.com/reports

We are working in ever closer partnership with others to manage flood risk in Yorkshire, for example:

- Our new internal Flood Steering Group has approved a number of smaller scale joint flood alleviation works in York and Malton, and two small drainage schemes in Hull;
- We have jointly mapped known flood risks with the Environment Agency, identifying approximately 120 opportunities to be investigated for potential future collaboration;
- We continue to share information and models with the Environment Agency and Lead Local Flood Authorities. For example, providing Sheffield City Council with our new Drainage Area Plan (DAP) for the city to inform their developing flood risk management plans;
- We also continue to play an active part in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships; and
- We are part of the River Hull Advisory Board (RHAB) which was established to develop the River Hull Integrated Catchment Strategy (RHICS) for one of the most 'at-risk' developed flood plains in England. Integrated catchment modelling has been undertaken and options have been identified that could reduce flood risk in the area.

We are investing to protect our own assets from flood risk to enhance the resilience of our services. We have completed a scheme at Moor Monkton raw water pumping station to give the site a 1 in 1000 year level of fluvial flood protection. This follows investment at

Hull and Market Weighton to provide the same level of protection. We have also updated our Flood Plans for areas like York and Sheffield, and our Vulnerable Asset Plans (VAPs) which provide our mitigation plans to protect sites from flooding in large flood events. Consultants working for the Department for Environment, Food and Rural Affairs (Defra) found our approach to resilience to be satisfactory when they visited us in 2014.

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.

YW is also working to reduce sewer blockages caused by customer activities, in particular disposal of fats, oils and greases (FOGs), nappies, wipes and other materials which are inappropriately disposed of via the sewer network. For example, our trial of above ground collection of used vegetable oil is proving successful in an area of Bradford where we have observed repeated sewer blockages. We are now working with Living Fuels to establish a regional approach to the collection of used vegetable oil and we aim to use the material to generate renewable energy on our operational sites.

## STRATEGIC BUSINESS OBJECTIVE – EXCELLENT CATCHMENTS, RIVERS AND COASTS

*The Group maintains and improves the water environment from source to sea, and influence others to do the same.*

| **Measures of our regulatory compliance** | **2013/14 performance** | **2014/15 target** | **2014/15 performance** |
|---|---|---|---|
| *Pollution incidents, sewerage<br>(No. Category 1-3 incidents per 10,000km of sewer) | 78.10 | ≤91.50 | 58.82 |
| *Serious pollution incidents, sewerage<br>(No. Category 1-2 incidents per 10,000km of sewer) | 3.27 | ≤2.61 | 1.31 |
| *Discharge permit compliance | 98.00% | ≥98.30% | 99.32% |

Ofwat define their Key Performance Indicators for the water industry on their website, at:
http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

*Calendar year measures

| **Measures of our ambition to go beyond our regulatory duties** | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| *Complete delivery of our five year (2010 - 2015) programme of activities to protect and enhance the environment, as defined in the National Environment Programme. | Environmental programme delivered, for example fish passage installation and ancient woodland restoration. Final activities are being completed in 2015. | |
| Complete the detailed design of our programme of activities to protect and enhance the environment from 2015 to 2020, as defined in the National Environment Programme. | Detailed design developed and in 2015 we will finalise 'Phase 5' of the programme in agreement with the Environment Agency. | |
| Document the plan for engagement on our programme of activities to protect and enhance the environment, including an evaluation of the potential and benefits of partnership delivery. | We continue to develop how we best collaborate to deliver our environmental programme, for example agreeing to partner with the River Don Trust on fish passage installations. | |
| Publish our policy on catchment management to protect raw water quality and other benefits, and draft a long-term strategy. | We have documented our policy on catchment management and continue to engage stakeholders about our approach. | |
| Document river catchment plans for the six main Water Framework Directive river catchments in Yorkshire (not including a seventh catchment where we have little impact, Idle and Thorne). | We continue to develop river catchment plans and these will be finalised once the fifth phase of our environmental investment programme is confirmed with the Environment Agency later in 2015. | |
| *No more than eight serious pollution incidents (Category 1 and 2).<br>*No more than 272 Category 3 pollution incidents. | Best ever performance achieved in 2014 with four Category 1 or 2 incidents and 191 Category 3 incidents. 2015 performance has started strongly. | |
| Water quality at 15 of Yorkshire's bathing beaches exceeding the revised Bathing Water Directive 'Sufficient' standard in the 2014 bathing season. | 18 Yorkshire beaches achieved Good or Excellent standard in 2014, with a step change at three beaches following our investment. | |

| Measures of our ambition to go beyond our regulatory duties (continued) | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| Real-time remote monitoring equipment installed at all combined sewer overflows, pumping stations, retention tanks and waste water treatment works which are likely to affect bathing water quality in the event of a discharge. | Real-time remote monitoring equipment installed enabling enhanced coastal management. | ⇧ |

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 3.

**Reducing pollution and enhancing river water quality**

We collect, treat and return 1 billion litres of waste water 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 waste water treatment works and network.

We were delighted that our high standards were recognised by the Environment Agency in their annual environmental performance review of the water companies. Yorkshire Water stood alone as the only 'industry leading' company in 2014.

We further improved our performance on waste water treatment in 2014, with discharge permit compliance reaching 99.3% (two failing works), improved from 98.0% in 2013 (six failing works). Our performance in 2014 was our best ever. Whilst it is our aim to continue to achieve this level of performance and drive towards zero failing works, our price review business plan was based on continuing to achieve the stable reference level of five failing works. Further details on our discharge permit compliance can be obtained in the Risk and Compliance Statement available at: www.yorkshirewater.com/reports

The total number of pollution incidents from our sewer network has continued to reduce over recent years. Performance fluctuates each year because sewer performance is influenced by the weather. We achieved best ever performance in 2014 with 58.82 Category 1, 2 or 3 pollution incidents per 10,000km of sewer, down from 78.10 in 2013 and 82.68 in 2012. The number of the most serious pollution incidents also shows an overall trend of improvement and best ever performance with 1.31 Category 1 and 2 incidents per 10,000km of sewer. This has fallen from 3.27 Category 1 and 2 incidents per 10,000km of sewer in 2013 and 1.63 incidents in 2012.

Our pollution performance improved over the period 2010 to 2015, following implementation of our pollution reduction plan. Pollution incident performance is a regulatory KPI which is reported in our 2014/15 Risk and Compliance Statement as green status for Category 1 & 2 incidents and amber for Category 3 incidents. This status is determined by the Environment Agency by comparing performance against the 2008-2010 industry average. We have made performance commitments to go even further by 2020, however customers have not supported the prioritisation of the funding needed to achieve green status. Achievement of the performance commitment will leave this measure amber status. A summary of our action plan to further improve pollution incident performance is provided in the Risk and Compliance Statement, which is available at: www.yorkshirewater.com/reports

We have worked with the Environment Agency (EA) to model the ecological implications of our discharges. Together, we are defining our programme of environmental investment and investigation needs to 2020, our part of the National Environmental Programme (NEP). In 2015 we are refining details of the final part of this programme, known as Phase 5. We will further enhance our waste water treatment capabilities where we have confirmed biological and/or chemical issues that need to meet legislative standards. Where there is uncertainty we will be carrying out investigations to inform the long-term approach

While delivering environmental water quality benefits, the new waste water treatment capabilities described above are often capital and carbon intensive. In 2014/15 we made a suite of commitments to the governments Infrastructure Carbon Review to work in partnership and use innovative solutions to protect both the atmospheric and aquatic environments.

## STRATEGIC BUSINESS OBJECTIVE – WATER EFFICIENT REGIONS

*The Group ensures water needs are met now and in the future by using water wisely and inspiring others to do the same.*

| Measures of our regulatory compliance | 2013/14 performance | 2014/15 target | 2014/15 performance |
|---|---|---|---|
| Water supply interruptions<br>(Hours per property served) | 0.17 | ≤0.25 | 0.17 |
| Total leakage<br>(Mega Litres per Day, Ml/d) | 282 | ≤297 | 288 |
| Security of Supply Index | 100% | 100% | 100% |

Ofwat define their Key Performance Indicators for the water industry on their website, at:
http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

| Measures of our ambition to go beyond our regulatory duties | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| Undertake a gap analysis on requirements to achieve the Carbon Trust Water Standard and use this to inform a review of our policy on water efficiency.<br>Investigate our use of potable water at our largest waste water treatment works and undertake cost benefit assessment of opportunities to reduce potable water use. | Gap analysis and investigations completed, identifying a series of possible improvements which is informing our plan to continually improve our operational water efficiency and achieve the Carbon Trust Standard for Water in 2017/18. | ⇧ |
| *Continued domestic customer water efficiency saving of at least 1.55Ml/d per year.<br>Continued business customer water efficiency saving of at least 4Ml/d per year. | Supported water efficiency of over 7.5Ml/d per year and reviewing innovative approaches to inform future plans for further water efficiencies. | ⇧ |
| Re-assess regional average night pressure and create a baseline to inform future management opportunities. | Greatly improved ability to monitor the water network. Currently reviewing newly available data to confirm baseline and inform future approach. | ⇧ |
| Complete a strategic assessment of new opportunities to create headroom in our supply demand balance, including a high level examination of the costs and benefits. | Assessment complete and opportunities will be considered further as we prepare our next Water Resources Management Plan. | ⇧ |
| Document our process to identify new opportunities for water efficiency by assessing a catchment's water supply demand balance in detail, and use the Sheffield catchment as a test case. | Process documented and Sheffield analysis started. Further assessment to be undertaken in 2015/16, including application of the new process to the Aire Valley and Hull. | ⇧ |
| Continue to monitor and inform national reform of abstraction licencing, and document our policy on abstraction and water trading. | Policy on water trading documented and continuing to monitor and inform nationally developing approach, with primary legislation expected. | ⇧ |

* Regulatory requirement.

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 3.

Water efficient regions

**Securing water supplies**

Our customers place a high value on the reliability of their water supply. We operate, maintain and enhance over 50 water treatment works and a distribution network of over 31,000km of water mains in order to treat and supply around 1.3 billion litres of drinking water each day. We can be proud that following our extensive investments, Yorkshire has had no service restrictions such as hosepipe bans since the 1995/1996 drought.

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 performance in 2014/15 remained strong, with improved performance on the duration of supply interruptions (reduced to an average of 9 minutes 36 seconds per property, or 0.16 hours per property) and maximum possible performance maintained on the industry measure for security of supply. We have also shown strong performance against leakage and other water efficiency targets, which are discussed in the next sections.

In 2014/15 we published the final version of our new Water Resources Management Plan (WRMP), which followed the 2013/14 publication of our revised Drought Plan. Our detailed assessments for these plans 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 current resilience and future planning. We have maximised the benefit of the good range and balance of water supply options in our region by developing infrastructure that allows us to move water around the region to where it is needed. We call this the Yorkshire grid and it covers 99% of our customers. We manage our 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 selection 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

We agreed our future plans with Ofwat at the end of 2014. These plans describe our operational and investment programme to manage water services. Our activities will include increasing network storage and working on projects to manage network pressure. To allow us to respond to bursts and other network problems more effectively, we will be enhancing our visibility of the network by installing further data loggers that automatically send data to our command centre.

**Sustainably reducing leakage**

Leakage is by far the dominant source of water waste. We measure, report and reduce leakage, of which about two thirds results from our distribution network and a third is from leaks in customers' supply pipes.

We have almost halved leakage since 1995 and recorded our lowest ever levels in 2012/13, at 265 mega litres per day (Ml/d). This was below the Sustainable Economic Level of Leakage (SELL), 297.1Ml/d. 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. The 2012/13 leakage performance was not affordable on a long term basis so we have managed our leakage control activities to return closer to the SELL, reporting 288Ml/d in 2014/15.

An options appraisal was carried out for the 2014 WRMP to identify a cost effective solution 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 reducing supply. By 2020 we will further reduce leakage, to no more than 287.1Ml/d. We will strive to continue finding ways to sustainably reduce leakage by focusing our operational resources and further innovation.

### STRATEGIC BUSINESS OBJECTIVE – SUSTAINABLE RESOURCES

*The Group uses sustainable resources, get the most out of them and reduces emissions and waste.*

| Measures of our regulatory compliance | 2013/14 performance | 2014/15 target | 2014/15 performance |
|---|---|---|---|
| Greenhouse gas emissions<br>(Kilotonnes of Carbon Dioxide equivalent, $ktCO_2e$) | 357 | ≤367 | 369 |
| Satisfactory sludge disposal<br>(Calendar year measure) | 100% | 100% | 100% |

Ofwat define their Key Performance Indicators for the water industry on their website, at:
http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

| Measures of our ambition to go beyond our regulatory duties | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| Document the approach we will use to assess the sustainability of our assets and investment programme. | Sustainable asset transformation programme initiated. Six commitments made to the Infrastructure Carbon Review. | |
| Reuse or recycle 92% of construction and demolition waste. | Reusing or recycling 96% of construction and demolition waste. | |
| Document Kelda Group's accommodation strategy, assessing economic, environmental and social considerations. | Assessments undertaken and we continue to develop our long term accommodation strategy. | |
| Plan to further reduce our HQ energy use, using the improved granularity of data provided by our energy monitors. | Continual improvement in our office energy efficiency, for example through the installation of LED lighting. | |
| Baseline Kelda Group's mileage and document a plan to achieve maintainable reduction targets. | Baseline developed and strategic review of our fleet completed, with improvements to be implemented over coming years. | |
| No more than $367ktCO_2e$ of operational emissions, meaning no more than a 3% rise compared to 2013/14, despite an 11% increase in national grid emissions. | Emissions up 3.4% to 369 $ktCO_2e$ . We almost entirely mitigated the 11% increase in the national grid emissions conversion factor by continuing to reduce our energy consumption and generating more renewable energy. We're now generating over 12% of our energy needs and the efficiency of our energy generation increased to an average of 415 KWh per TDS. Emissions are down 15% since 2008/09. | |
| Reduce our electricity consumption by at least 8% compared to 2010/11 baseline. | | |
| Provide at least 13% of our electricity needs through our own generation. | | |
| Take value from sewage sludge by generating 398kWh per tonne of dry solid (TDS) sludge treated. | | |
| 90% of our wastes diverted from landfill. | Waste diverted from landfill increased to 93.5%. | |
| Develop and introduce a new sustainable supply chain risk assessment tool kit. | We continue to develop our new approach and from September 2015 we will ensure systematic completion of a sustainability risk assessment for all new contracts. | |
| Introduce a new process for the approval of sustainable suppliers. | | |
| 50% of aggregates used in our Repair & Maintenance (R&M) activities to be sourced from recycled materials. | 71% recycled aggregates used in our R&M activities. | |
| Filter bed media being recovered for beneficial reuse. | Filter media being recovered at Bradford's treatment works, some used at a nearby train station development. | |

| Measures of our ambition to go beyond our regulatory duties (continued) | | |
|---|---|---|
| **2014/15 target** | **2014/15 performance** | **Overall trend** |
| Waste Fats, Oils and Greases (FOG) generating energy through generators operated by Living Fuels on our sites. | Preparing to generate energy from FOG in partnership with Living Fuels in coming months. | ⇧ |
| Our trial of a new renewable energy technology, Advanced Thermal Conversion (ATC), will be generating energy from our sewage sludge and we'll have investigated options to fuel ATC using other organisations' surplus materials. | ATC pilot plant built and generating renewable energy. The use of business customers waste streams has been investigated and may be trialled in the longer term. | ⇧ |
| Work with external partners to develop our ability to take a circular economy approach to our waste and resources, delivering quick wins and a documented plan. | Plan continues to develop, including examples above and more. Engaging with Bradford University's re:centre to further our approach. | ⇧ |
| £625k of benefit generated for us and others by developing the circular economy. | We have been unable to quantify the mutual benefits however progress towards circular economy is starting to deliver financial, environmental and social benefits to us and others. | ⇧ |

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 3.

**Reducing operational greenhouse gas emissions**

Operational emissions are those produced through the activities we undertake to provide our water and waste water services, predominantly from the substantial amount of electricity required to move and treat water and waste water. We also monitor the emissions embedded in the assets we build, which we discuss further below.

Our reported emissions depend on both our activities and the nationally determined emissions conversion factors. In order to report the greenhouse gas (GHG) emissions associated with our activities, we convert 'activity data', such as distance travelled, into carbon emissions.For example, in 2014 1kWh of national grid electricity was multiplied by a factor of 0.49426 to reflect the carbon dioxide equivalent emissions. In the UK, the department for environment, food and rural affairs (Defra) publish updated emissions conversion factors each year to ensure carbon footprints are based on best available information.

Electricity dominates our emissions footprint and we use more electricity in periods of extreme weather when we increase pumping during floods or dry spells. While we are generating increasing amounts of our own low carbon, renewable electricity, the majority is supplied by the national grid. Defra's conversion factor repository states: "In the 2014 GHG conversion factors there was an 11% increase in the UK electricity factor from the previous year because there was a significant increase in coal powered electricity generation share in 2012 (the inventory year for which the 2014 GHG conversion factor was derived)". Overall, our emissions increased 3.4% in 2014/15 compared to the previous year. While we ultimately strive to reduce our absolute emissions, we are pleased that our recent investments almost entirely mitigated the 11% increase in the national grid electricity emissions factor in 2014.

We have reduced our operational emissions by 15% since 2008/09 by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Previous years of reducing national grid emissions conversion factors also helped our position. The 2015 conversion factor has decreased by 6.5% compared to 2014, following a decrease in coal powered generation in 2013.

Our success in achieving the Carbon Trust Standard (CTS) demonstrates our leading 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 for 2014/15 and the previous year are shown in the table below. We estimate our emissions using the agreed water industry approach that aligns with Defra reporting guidelines and latest emission factors.

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

* Please note that Scope 1, 2 and 3 emissions do not add up to Total emissions in the table above because the Scope 1, 2 and 3 figures are gross emissions.

Scope 1 emissions are those directly released to the atmosphere. We release Scope 1 emissions from: burning fossil fuels on our sites; driving group vehicles; and releasing gasses during treatment processes.

Scope 2 emissions are those indirectly released to the atmosphere through the purchase of electricity, heat or steam. We purchase large amounts of grid electricity to pump and treat water and waste water.

Scope 3 emissions are other indirect emissions. We include business travel on public transport and in private vehicles, activities from outsourced operators and emissions from the transmission and distribution of the grid electricity that we purchase.

**Reducing embedded greenhouse gas emissions**

Embedded emissions are those that result from the purchase of goods and the construction of new assets. We have substantial embedded emissions because we have a large supply chain and asset investment programme.

In 2014/15 we have further matured 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.

We are working to reduce the emissions embedded in our capital investments and we recently 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. We believe that driving a transformation in embedded carbon will also help us realise new cost efficiencies.

**STRATEGIC BUSINESS OBJECTIVE – STRONG FINANCIAL FOUNDATIONS**
*The Group delivers services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.*

The financial performance of the Group is reviewed on pages 27 to 29.

**Determining future prices and operational and investment plans**
YW worked with Ofwat to complete the latest price review cycle in 2014/15. Ofwat 'determined' price limits in December 2014 and we discuss future prices below. In line with the plans we published in December 2013, it is now confirmed that we will be investing £3.8 billion between 2015 and 2020 to deliver the services customers and stakeholders told us were most important. We will need to borrow an additional £1.3 billion from lenders to do this.

We have completed our preparations to effectively deliver our plan, ensuring high levels of customer service at reduced prices, environmental protection and fair returns for investors.

You can find out full details of our plans at:
www.yorkshirewater.com/blueprint

**Delivering YW's capital investment programme**
We invest significant capital expenditure to add to and replace our plant and equipment. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant period and the associated funding costs and operating costs.

In 2014/15 we have continued to govern closely the effective delivery of our capital programme. A Board Capital Investment Committee (BCIC) with delegated power from The Board monitors the capital programme delivery and provides strategic direction.

YW's Capital expenditure in the year was £286m (2014: £356m) as they successfully completed their capital programme for AMP5. YW delivered all regulatory outputs on time and as forecast in the Final Business Plan for the period 2010 to 2015, with the exception of one multi-agency sewer flooding study. The impact of this is partially offset by the over-delivery of sewer flooding outputs. Both are immaterial and will not result in a financial adjustment by Ofwat. The four forecast serviceability measures have been confirmed as 'stable', with the stretching Enhanced Level of Service pollution, DG2 low pressure and DG5 Other causes flooding measures all exceeding the requirements of the 2009 Final Determination.

As with previous investment periods, if YW were unable to deliver their capital investment programme at expected expenditure levels, were unable to secure the expected level of efficiency savings, or the programme fell behind schedule, profitability might suffer because of a need for increased capital 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.

**Managing our credit ratings**

In May 2015, Standard and Poor's announced that it held the rating of our Class A debt at A-, Stable and our Class B debt at BBB, Stable.

In March 2015, Moody's downgraded our corporate family rating to Baa2 from Baa1, our Class A debt to Baa1 from A3, and our Class B debt to Ba1 from Baa3. Moody's noted that, in their view, not withstanding that YW's final determination was largely in-line with its business plan submissions and the track record of solid operational performance, that the credit quality continues to be pressured by the portfolio of inflation-linked derivatives and the deterioration in the mark-to-market value of that derivatives portfolio. See the 'Managing financial risk' section for more details.

In February 2015, Fitch announced that it held the rating of our Class A debt at A, Negative Outlook and moved the rating of our Class B debt to BBB+, Stable (from BBB+, Negative Outlook).

**Managing financial risk**

Our executive team (Kelda Management Team, 'KMT') 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 £34.9m (2014: negative value of £79.3m).

YW turnover is linked to the underlying rate of inflation (measured by RPI) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, the % of net debt to Regulatory Capital Value (RCV) is a key covenanted ratio of the WBS. RCV is linked to RPI so negative inflation, without management, could breach this ratio despite YW 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 £1,289.0m. 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 YW gave rise to an out of the money mark to market value of £2,076.8m (2014: £1,532.0m) at the year-end date. The Mark to Market value of the swaps will move with the long term market expectations of LIBOR. Included within the terms of the derivatives are mandatory breaks at 2018, 2020, 2023 and 2025. Management has strong plans in place to manage the breaks and at 5 June 2015 had successfully removed the breaks relating to 2018. Action to remove the remaining breaks is planned in the next few years. See note 23 for actions taken since the year end.

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

Details of the Group's treasury policy can be found on page 28.

**Preparing for increasing competition in the water industry**
The Water Act 2014 received Royal Assent in May 2014. The Act aims to reform the water industry to make it more innovative and responsive to customers and to increase the resilience of water supplies to natural hazards such as drought and floods.

In 2017 it will introduce greater freedom for businesses, charities and public sector customers in England to choose their retailer of water and waste water services. This will connect with the existing retail market in Scotland. We have been making the necessary preparations to manage the opportunities and risks presented by the Water Act 2014 reforms.

Increasing 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, for example we established a separate function called Yorkshire Water Business Services in 2014/15. 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.

Strong financial foundations £

**UK Service Operations**

UK Service Operations comprises Kelda Water Services, Loop and Safe-Move, a non regulated trading arm of Yorkshire Water which provides property search information to solicitors. Operating profit for the UK Service Operations group and its associated undertakings for the year to 31 March 2015 was £18.7m (2014: £18.2m), reflecting the continuing strong operating performances of existing businesses.

**Kelda Water Services Ltd (KWS)**

KWS is a leading UK water and waste water contract operations company. KWS continues to seek growth in its core market, providing water and waste water operations and maintenance under long term contracts. In the year, KWS had external turnover of £94.3m and operating profit of £8.3m (2014: £88.6m and £17.0m respectively).

KWS continues to operate across the UK through its three principal projects:

- KWS Alpha in Northern Ireland (KWS Alpha Limited and Dalriada Water Limited);
- KWS Defence in England and Wales (KWS Defence Limited and KWS Estates Limited); and
- KWS Grampian in Scotland (KWS Grampian Limited and Aberdeen Environmental Services Limited).

KWS Alpha had a successful year, broadly achieving its financial business plan in spite of volumes dispatched continuing to be lower than plan, although consistent with recent years' experience of lower dispatch volumes. This year also saw a substantial amount of work in delivering a major capital project to increase the pumping capacity from the Castor Bay water treatment works as part of a larger Northern Ireland Water project to improve security of water supply to Belfast.

KWS Defence had another excellent year, outperforming its planned operating profit target by £0.4m and delivering the project's best ever performance since contract commencement. Improving strategic asset management took a step forward with implementation of a new work and asset management system together with achievement of the asset management standard ISO55001.

KWS Grampian had a difficult year incurring exceptional costs of £7.5m in the period as part of meeting one-off contractual obligations on the site in Aberdeen, further exceptional costs are expected in 2016.

KWS new business development has centred on the construction of an anaerobic digestion facility for Edinburgh and Mid-Lothian council. This project is on target for service commencement on 31 December 2015. KWS also achieved financial close on Cardiff Council's Organic Treatment Procurement in Cardiff, which is a second anaerobic digestion scheme and is scheduled for construction to start in June 2015. A wind turbine was handed over to Yorkshire Water's operational site at Knostrop in Leeds during the year and also had planning permission granted for a turbine at another YW site. Other activity in the year included the continued development of KWS Retail to deliver growth from the opportunities arising from increased retail competition within the UK water industry.

In order to support its growth programme, KWS successfully completed in the year on a £35m Portfolio Loan facility for draw down against approved projects and secured on its overall earnings.

KWS' growth strategy remains focused on supporting Kelda's vision in Yorkshire and elsewhere in the UK. Unlike YW, it does not operate in a directly regulated environment. Consequently its exposure to factors in the external environment is primarily limited to factors affecting the wider UK economy, although some procurement is affected by European and worldwide commodity pricing. However, changes to competition in the Water Act offer opportunities for increased activity by the non-regulated water sector. The most important factors to KWS' current businesses are the retail price index (RPI), the financial marketplace and its impact on debt availability. The major environmental influence is climate change and its increasing influence on legislation which can be a risk but also creates new opportunities. Increased pressure on Government finances also creates new opportunities for outsourced activities from the public sector.

**Bridgeport**

Kelda held a contract to provide sewerage services to the City of Bridgeport in Connecticut, US that terminated on 31 December 2013. The contract was loss making and an onerous contract provision had been provided to cover expected exit costs. During the year the major costs and risk areas for pension and other employee costs were met. At the year the outstanding provision was reduced to £0.5m to meet any remaining costs associated with closing down of the US entities.

**Loop Customer Services Management Ltd (Loop)**

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

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

2014/15 was a good year for Loop, delivering its best ever customer service, as measured by Ofwat's Company SIM points. The SIM score was achieved through implementing a range of new initiatives which have now been embedded and will be continued into the next five year business planning period.

Loop performed well on unwanted contacts due to improvements in the way in which the company has proactively communicated with Yorkshire Water customers about water issues through "Blaster". Loop has sent more than 460,000 proactive texts to customers during 2014/15 resulting in a significant reduction in unwanted calls.

Quality performance has also been the highest ever seen, with the overall company SIM score exceeding 2014/15 business plan targets and the highest score for customer satisfaction of billing calls that has ever been seen. This was driven by the "customer voice" initiative, providing instant feedback individually to all colleagues, and a company wide review of waste case management resulting in changes to customer services operations. Loop has changed the way in which it talks to customers about their waste case, and as a result has improved customer satisfaction.

Loop have also improved their processes for dealing with complaints, ensuring the best resolution for customers. There has been an overall reduction in complaints of 25% compared with the same time last year.

The billing service to customers has also been improved during 2014/15, which will continue to provide benefits going forwards.

In addition, the Kelda board decision in 2014 to close the Rockford debt collection subsidiary company resulted in a big change of strategy for debt collection. Rockford strategies have since been replaced by a YW branded lettering strategy aimed at promoting and identifying vulnerability as well as a significant increase in field activity of over 14,000 more customer visits compared to the previous year.

Loop successfully introduced two new stages to the affordability strategy in 2014/15. From October 2014 Loop implemented the new WaterSupport Tariff for Yorkshire Water. This tariff looks to support customers on the lowest incomes with the most significant affordability issues by bringing their bill down to the level of an average Yorkshire Water bill, no matter what their water usage.

Following the introduction of the WaterSupport tariff Loop initiated a relationship with “Step Change”. Step Change are an independent debt charity that support individuals in financial difficulties free of charge. Loop now directly transfer over 30 YW customers a month to Step Change of which 86% successfully come away with a debt management plan.

Loop are dependent upon its 700 colleagues to deliver excellent customer service to Yorkshire Water’s customers. Developing and engaging colleagues to support them in delivering those levels of service and keeping them safe and healthy is a continuing priority. During the year there has been continued focus on the health and safety of colleagues and a significant investment in Occupational Health services.

**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 transaction 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.

SafeMove are current winners of the North of England Business Excellence Awards 2014 and continue to hold the Investors in People Gold and Champion accreditation and the British Quality Foundation, Recognised for Excellence certification at 5 star level, one of only 43 organisations to achieve this standard.

**Keyland Developments Ltd (Keyland)**

The property market continued to improve during 2014/15, 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 began work to identify and secure further opportunities by working with third party landowners seeking to bring forward potential development sites.

The Aire Valley in Leeds remained the focus of Keyland's commercial development activity. The site has planning permission for a major distribution park and forms part of the Leeds City Region Enterprise Zone. The site attracted grant funding from central government and a development loan from the local enterprise partnership and work commenced to reclaim and provide services to the first phase of the development. 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 maximise value from properties and land released by YW.
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, but will also consider promoting sites on behalf of other major landowners.

## FINANCIAL PERFORMANCE

### Key financial performance indicators

| | **Year ended 31 March 2015** | Year ended 31 March 2014 |
|---|---|---|
| | **£m** | £m |
| Operating profit from continuing operations | 419.3 | 359.1 |
| Operating profit before exceptional items and share of associates and joint ventures profit/(loss) after tax | 417.2 | 359.2 |
| EBITDA ( as defined in note 4) | 653.7 | 607.7 |

### Operating results for the year

The results for the year show an operating profit before exceptional items and share of associates and joint ventures profit/(loss) after tax of £417.2m (2014: £359.2m). Of this, £384.3m (2014: £383.5m) is generated by YW's regulated water business. Note 3 to the financial statements shows the profit split by segment. In the year there has been a significant movement in the finance income of £31.8m (2014: £323.9m) and costs of £783.1m (2014: £372.1m) which has had an adverse impact of £703.1m on the reported position. Further details are given in the next section.

### Exceptional items for the year

Exceptional items comprise the following:

| | **Year ended 31 March 2015 £m** | Year ended 31 March 2014 £m |
|---|---|---|
| **Included in operating costs:** | | |
| Contractual compliance costs | **(7.5)** | - |
| Bridgeport provision release | **9.1** | - |
| | **1.6** | - |
| **Included in finance (costs)/income:** | | |
| Movement on fair value of index linked swaps | **(369.9)** | 298.2 |
| Movement on fair value of finance lease interest rate swaps | **(8.6)** | 5.9 |
| Movement of fair value of combined cross currency interest rate swaps and associated bonds | **4.2** | (0.3) |
| Movement of fair value of fixed to floating interest rate swaps and associated bonds | **4.8** | (5.2) |
| | **(369.5)** | 298.6 |

Included in operating costs is an exceptional gain of £9.1m, relating to the release of the Bridgeport provision which is no longer required (see note 18), and an exceptional item of £7.5m for the cost of meeting contractual obligations at the Aberdeen site. Both are one-off in nature.

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 2015 resulted in a £1,858.3m liability (2014: £1,446.4m).

Of the year on year movement of £411.9m, a charge of £61.6m (2014: £15.6m) relating to RPI accretion has been recognised within finance costs, a charge of £369.9m (2014: £298.2m credit) has been recognised as an exceptional finance cost and the remaining £19.6m (2014: £Nil) was cash paid. This 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 2015 resulted in a £24.2m liability (2014: £15.7m). The year on year increase of the liability of £8.6m (2014: £5.9m) 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 2015. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £4.2m credit (2014: £0.3m charge) 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 (2014: cost). 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 2015. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £4.8m credit (2014: £5.2m charge) 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.

**Treasury policy**

The Group's treasury operations are controlled centrally for the Group by a treasury department which operates on behalf of all companies controlled by the ultimate parent. 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.

The Group uses a combination of fixed capital, retained profits, long term debt, finance leases and bank facilities to finance its operations. Any funding required is raised by the Group treasury department in the name of the appropriate Group company, operating within the covenants contained within the Group's financing documents. Funding raised by a Group company may be lent to other Group companies at commercial rates of interest. Funds surplus to operating requirements are placed with banks which have minimum short term ratings of A1, F1 or P1 with Standard & Poors, Fitch and Moody's respectively; money market funds require ratings of at least, A-, A- or A3.

Further details on the borrowings positions can be found in note 16.

**Revaluation of property, plant and equipment**

The Group's infrastructure assets were revalued at 31 March 2015. This valuation has been incorporated into the financial statements and the resulting revaluation adjustment taken to the revaluation reserve after deducting a provision for deferred tax. The revaluation during the year ended 31 March 2015 resulted in a net revaluation surplus of £187.1m after deferred tax. The directors consider that the other carrying values of assets continue to be appropriate.

## Principal risks

<table>
<tr><th>Strategic risk</th><th>Controls</th></tr>
<tr><td>Failure to protect colleagues and the public from harm<br>We play a critical role in protecting the safety, health and wellbeing of our customers, colleagues and contract partners.</td><td rowspan="9">• Health and safety culture, systems and processes<br>• Internal audit and external assurance<br>• Emergency response and escalation<br>• Stakeholder engagement and influencing<br>• Customer insight and feedback<br>• Training and development<br>• Regulatory monitoring and reporting<br>• Internal monitoring and measurement<br>• Day to day management controls<br>• Financial business planning<br>• Forecasting and long term planning<br>• ISO certified integrated management systems<br>• Dynamic risk management culture and systems</td></tr>
<tr><td>Failure to deliver enough clean, safe drinking water<br>We supply an average of 1.27 billion litres of water to Yorkshire consumers each day, it is imperative that this remains a safe, high quality and reliable service.</td></tr>
<tr><td>Failure to manage waste water<br>The effective maintenance and operation of our sewer network and waste water treatment works is essential to ensure a healthy environment, avoid pollution and play our part in mitigating flooding.</td></tr>
<tr><td>Failure to protect and manage our impact on the environment<br>In continually interacting with the natural environment we safely abstract and discharge to the water environment and manage substantial land holdings and emissions to the atmosphere.</td></tr>
<tr><td>Breach of legal or regulatory compliance<br>We’re highly regulated and non-compliance presents the risk of fines, enforcement action, increased scrutiny and ultimately licence revocation.</td></tr>
<tr><td>Failure to deliver our customer promise<br>Through consultation we know what our customers expect of us. Failure to deliver our commitments presents risks to regulatory compliance, reputation and our licence to operate.</td></tr>
<tr><td>Poor execution and delivery of strategy, systems or process<br>Poor execution of essential strategies, systems and processes would compromise our ability to operate efficiently and effectively to deliver our services and our business plan.</td></tr>
<tr><td>Inability to respond to external threats / opportunities<br>Climate change, population growth and other sustainability mega-trends threaten our long-term ability to affordably maintain essential services.</td></tr>
<tr><td>Failure to achieve financial sustainability<br>Our operations expose us to a variety of financial risks that include the effects of changes to debt market prices, interest rates, revenue and competition.</td></tr>
</table>

The Strategic Report was approved by a duly authorised committee of the board of directors on 2 November 2015 and signed on its behalf by:

Richard Flint
Chief Executive
2 November 2015

**Corporate governance**

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.

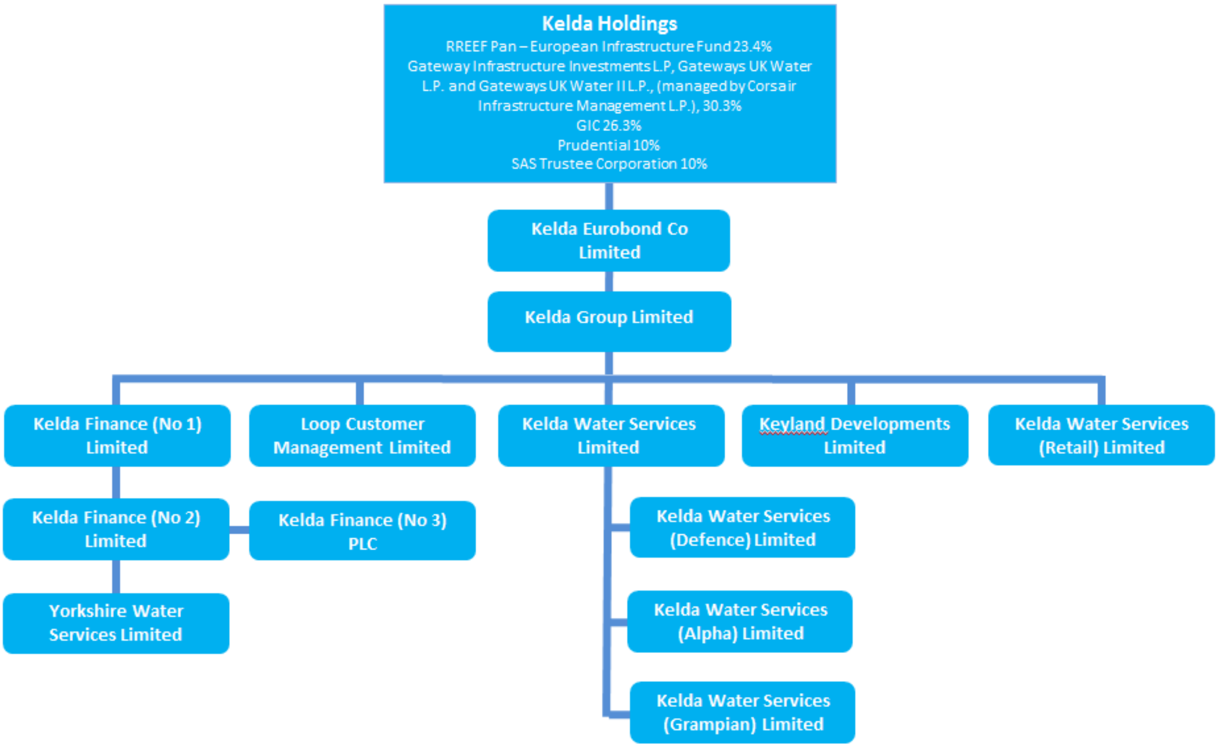
In April 2014 Ofwat published a document entitled "Board leadership, transparency and governance – holding company principles" ("the Ofwat Holding Company Principles") which set out the principles that Ofwat considers should guide the governance arrangements of the holding company of a regulated company 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 YW has adopted its own "Board Leadership, Transparency and Governance Code" ("the YW Code") which it has published on its website. The YW Code sets out how YW currently applies the Ofwat Principles and the time frame in which they will be fully adopted. An explanation of how YW applies the Ofwat Regulated Company Principles is provided in the YW 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 Company and its committees discharge their duties in respect of corporate governance, this report describes how the Company complies with the Holdings Code.

## Group Structure

The structure of the Company and its principal operating subsidiaries is transparent and explained in a clear and simple way on the Company's web-site. Details of the Company's shareholders and capital structure are also published on the Company's web-site. The annual report and accounts of YW 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 2015 was as follows:

Richard Parry-Jones – Independent Non-Executive Chairman
Richard Flint – Chief Executive
Liz Barber – Director of Finance, Regulation and Markets
Robert Davies – Independent non-executive director
Anthony Rabin – Independent non-executive director
Scott Auty – Shareholder non-executive director (SAS Trustee)
Stuart Baldwin – Shareholder non-executive director (GIC)
Paul Barr – Shareholder non-executive director (GIC)
Vicky Chan – Shareholder non-executive director (Corsair)
Milton Fernandes – Shareholder non-executive director (M & G Infracapital)
Holly Koeppel – Shareholder non-executive director (Corsair)
Aparna Narain – Shareholder non-executive director (RREEF)
Michael Osborne – Shareholder non-executive director (Corsair)

Jane Seto - Shareholder non-executive director (RREEF)
Sara Leong – Alternate director to Scott Auty (SAS Trustee)
Mark Chladek – Alternate director to Milton Fernandes (M & G Infracapital)
Jean Daigneault – Alternate director to Michael Osborne (Corsair)
Antonio Herrera – Alternate director to Vicky Chan (Corsair)

Kevin Whiteman served as Chairman until 25 March 2015 and subsequently stepped down from the Board on 31 March 2015. Hamish Mackenzie (alternate director to Jane Seto) served on the Board until 19 March 2015.

Each of the directors, except for Anthony Rabin and Robert Davies, serve 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 YW. 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 on 30 September 2015.]

The biographies of the Board can be found on page 65.

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 met for an additional five meetings to consider YW's business plan submission to Ofwat for the five yearly Price Review process. In addition, meetings of committees of the Board were held when 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 Company must not act in a way which would prevent YW 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 YW 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 YW.

The Board intends to continue to ensure that the Company refrains from any action which would cause YW 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 YW 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 YW as the appointments of those directors come to their term.

The Board provides the Board of YW with such information as it reasonably requires about the activities of the wider Kelda Group. It also expects to continue to support YW, 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 YW 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 YW.

As set out in the Annual Report and Financial Statements of YW, a number of steps were taken by YW during the financial year to ensure full compliance with the Ofwat Regulated Company Principles. The Board was re-configured such that independent directors form a majority of the directors, the Board is led by an independent non-executive Chairman, a Senior Independent Director has been appointed and a Remuneration and Nomination Committee have been established, chaired by non-executive directors. The matters reserved to the Board were also reviewed. The Company expects to continue to support YW, 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 YW are explained in the Annual Report and Financial Statements of YW.

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;

- Regular review and final approval of BluePrint 2020, the Group's business plan;
- Review and approval of YW's PR14 business plan submission to Ofwat;
- Review and approval of proposed changes to the Group's Index linked swaps;
- Ofwat's Final Determination;
- Kelda Water Services funding strategy and growth opportunities;
- Governance of YW;
- The board evaluation process referred to below;
- Water industry market reform and implementation of Water Act 2014; and
- Group health and safety strategy and performance.

*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 Company 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 for the majority of the year by Kevin Whiteman and Richard Flint respectively. Richard Parry-Jones took over the role of Chairman following Kevin Whiteman's last meeting on 26 March 2015. Kevin Whiteman resigned as a director on 31 March 2015.

*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. Since his appointment to the Board, the Chairman has undertaken a number of site visits throughout the Yorkshire region and has met on a number of occasions with members of the YW 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 are 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 will complete the Group's e-learning diversity and inclusion training during the next 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 70.

**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.

During the financial year the Board also had in place a Remuneration Committee and Nominations Committee. Following the establishment of a Remuneration Committee and Nominations Committee of the Board of YW these Committee's ceased to operate as they are no longer required.

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

| | Board | Audit | Remuneration | Nominations | Investment |
|---|---|---|---|---|---|
| Scott Auty | 6/11 | 4/5 | 3/4 | 1/1 | 3/3 |
| Stuart Baldwin | 5/11 | - | 2/4 | 1/1 | - |
| Liz Barber | 11/11 | - | - | - | 3/3 |
| Paul Barr | 8/11 | 5/5 | - | - | 2/3 |
| Vicky Chan | 11/11 | - | - | - | - |
| Robert Davies | 10/11 | - | - | 1/1 | - |
| Milton Fernandes | 11/11 | 5/5 | 4/4 | 1/1 | 1/3 |
| Richard Flint | 11/11 | - | - | - | - |
| Holly Keoppel | 9/11 | - | 4/4 | 0/1 | - |
| Aparna Narain | 11/11 | 3/4 | - | - | 3/3 |
| Michael Osborne | 11/11 | 4/5 | - | - | 3/3 |
| Richard Parry-Jones | 3/3 | - | - | - | - |
| Anthony Rabin | 8/11 | 5/5 | - | - | - |
| Jane Seto | 10/11 | 0/1 | 3/4 | 1/1 | - |
| Kevin Whiteman | 11/11 | - | 4/4 | - | - |

**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 40 to 44.

**Remuneration Committee**

Details of the membership and role of the Remuneration Committee in place during the year are included in the remuneration report on pages 45 to 63. The Remuneration Committee ceased to operate during the financial year following the establishment of the Remuneration Committee of the YW Board.

**Nominations Committee**

The Nominations Committee met once during the year to consider the process for the appointment of candidate to succeed the Chairman once he left office. The Nominations Committee ceased to operate during the financial year following the establishment of the Nomination Committee of the YW Board.

**Investment Committee**

The Investment Committee met three times during the year to consider non-regulated investment opportunities in KWS.

**Corporate Responsibility Committee**

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

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**

The Chairman carried out a board effectiveness evaluation during the reporting year through a self-evaluation questionnaire. The content of 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 Chairman reported on the evaluation at the board meeting on 26 March 2015. The evaluation concluded that the Board had been run effectively during the year and that the new Chairman would follow up on actions arising during the next financial year. The areas on which the new Chairman, Richard Parry-Jones will focus during the next financial year include strategic direction, board priorities, succession planning and skills and training of board members. The Board intends to conduct an externally facilitated board evaluation in the next financial year.

Kevin Whiteman was not considered to be independent under the Code therefore appraisal of the Chairman's performance was carried out by the Company's shareholders on an on-going basis. During the next financial year the Board will consider how the appraisal of the new independent Chairman's performance will be carried out.

**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 Company and any other roles which they may hold.

**Audit Committee**

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

The Committee's key tasks during the year included:

- assessment of the appropriateness of the key judgements within the financial statements;
- reviewing the PR14 assurance process;
- reviewing Company Compliance Certification Regulatory Assurance;
- reviewing the company's Whistleblowing Policy;
- conducting a risk identification workshop;
- reviewing the Group's system of internal control, including financial, operational compliance and risk management;
- overseeing the Group's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence, performance and objectivity of the external auditors;
- reviewing internal audit reports on the Group's operations;
- a review of the criteria for reviewing the effectiveness of the external auditor;
- conducting an external review of the effectiveness of the internal audit function and the 2015/16 internal audit programme and charter; and
- to report to the Board on how it has discharged its responsibilities.

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 specific business areas and processes from time to time.

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 is considered on a regular basis and takes 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 company and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; 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 2015 appears in note 4 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 2015 the external auditor carried out certain items of non-audit work on behalf of the Group. The fees in question are not considered to be material. In the event that the Group 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 usually be conducted.

The external auditor was appointed in 2007 when the last audit tender was conducted. 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. In the year the external auditors have changed the engagement partner in accordance with professional and regulatory standards. This protects the independence and objectivity and provides fresh challenge to the Group. 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 2014/15 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 financial statements and disclosures have been discussed, with input from management and the external auditor. This has included:

_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 for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the pension obligation.

All key assumptions relating to the retirement benefit deficit are reviewed with the Group's pension advisors, Mercers, and compared 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.

_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 use the net present value of 25 year cash flows plus discounted RCV as terminal value to arrive at the investment value.

Management's report on key assumptions with respect to goodwill impairment was reviewed and the sensitivity of the calculation to any change in assumption was notes. The conclusion was reached that the assumptions were. See note 10 for more details on the key assumptions.

_Infrastructure asset valuation_

At 31 March 2015 infrastructure assets, which comprise a significant proportion of the Group's asset base, were revalued in line with the Group's accounting policy. Management reported to the Committee the methodology applied, the basis of the valuation and the key assumptions that have been used in calculating the Value In Use (VIU) of the assets. VIU, which is considered the most reliable method to determine the current value for the tangible fixed assets, is a discounted cash flow which incorporates the future growth rates and an assumed discount rate. The conclusion was reached that the methodology and the assumptions used are appropriate. An uplift of £234.6m has been recorded in relation to the infrastructure assets.

*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. The provision for doubtful debts at 31 March 2015 of £28m was consistent with the balance at 31 March 2014 of £26.2m.

The principal risks considered by the Board are covered in the strategic report on page 30.

**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 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.

The Group's risk management process aims to be comprehensive, systematic and continuous, and based on constant monitoring of business risk. The key features of the process include the following:

- the principal risks facing the Group are identified and recorded in a strategic risk register aligned to business unit risk registers. All risks are managed at the appropriate level through the risk register hierarchy and have stated controls, owners and action plans where necessary. Risk registers are maintained by individual business units. There is 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;

- risks are monitored for any increases or decreases in risk position taking into account internal and external factors and appropriate controls in place. All movements in strategic risk position are reported to KMT monthly;

- KMT meets quarterly to review YW's strategic risk position in detail and carry out a PESTLE analysis (political, economic, social, technological, legal and environmental). This acts as a prompt for KMT to discuss, assess and develop action plans relating to external trends, issues or opportunities;

- the Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf of Yorkshire Water. Anthony Rabin, as the Chairman of the Audit Committee, reports to the Board.

- the internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process. An update on the risk and assurance position is provided at 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. An independent, external review of the effectiveness of the internal audit function has been undertaken in the year. No significant issues were identified.

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

**Statement by the Chair of the Remuneration Committee**

On behalf of the Kelda Group Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2015. During the year in question, as it has done for previous years, YW operated its remuneration policy as a Group level. A Yorkshire Water Remuneration Committee (Company Committee) was established on 25 March 2015, to consider matters as set out in its terms of reference insofar as they apply specifically to the affairs of YW. This new committee is to be chaired by a non-executive director of YW, Ray O'Toole, in line with the OFWAT principals. The terms of reference of the newly formed YW committee are available on request from the Group Company Secretary and can be accessed on the corporate governance section of the Kelda Group's website at: www.keldagroup.com/corporate-governance-manual. Following the establishment of the YW Committee the activities of the Kelda Group Remuneration Committee will be undertaken by the YW Committee. This report covers the work undertaken by the Kelda Group Remuneration Committee in the year.

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

- reviewed the remuneration packages of the Kelda Management Team (KMT);
- assessed the achievement of targets for the 2014/15 annual incentive plan;
- assessed the measurement of performance conditions for the long term incentive plan (LTIP) awards vesting in 2011, amended the SIM performance condition in the 2012 LTIP due to the OFWAT SIM pilot, and made an interim assessment of the vesting of the 2012 scheme;
- considered reward packages for the Group;
- considered market trends and quoted company senior executive remuneration; and
- considered the appointment and receipt of fees for the Group Director of Finance, Regulation and Markets to an external non-executive position.

The salaries for managers on average increased by 2.37% with effect from 1 April 2014 compared to a general increase of salaries in the Company of 2.6%. The basic salary of the Chief Executive increased by 2% from £380,000 to £387,600 and the salary of the Group Director of Finance, Regulation and Markets rose by 2% from £270,607 to £276,019.

Annual bonuses are based on the achievements of targets measured across the Company's SBOs as described in the body of this report. Bonus payments of 87% for the Chief Executive and 85% for the Group Director of Finance, Regulation and Markets were awarded for 2014/15 (the maximum being 100% of salary) reflecting the strong performance achieved by the Company.

The Group Chief Executive and the Group Director of Finance, Regulation and Markets were executive directors of Kelda Holdings Limited during 2014/15 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 below.

The Long Term Incentive Plan (LTIP) awarded in May 2011 was due to vest in this financial year subject to achievement of the Performance Conditions for that award. The 2011 LTIP did not vest as the step 1 performance condition (being ranked 5$^{th}$ or higher in the SIM Ofwat ranking of Water and Sewerage companies) was not met.

The LTIP awarded in April 2012 is due to vest in 2015. Based on achievement of Performance Conditions of Service Incentive Mechanism (SIM), Cash available for distributions and Serviceability, the LTIP has vested at [75]%.

Holly Keller Koeppel

**Holly Koeppel**
**Chair of the Remuneration Committee**

## Introduction

During the year ended 31 March 2015 the Committee comprised four shareholder representatives, the Chairman of the Company and Martin Havenhand representing Yorkshire Water's independent non-executive directors. Richard Flint, Chief Executive, Pamela Doherty, Director of Human Resources and Health & Safety, and Chantal Forrest the Group Company Secretary attended all meetings. Liz Barber, Group Director of Finance, Regulation and Markets attended by invitation. Pamela Doherty acted as adviser to the Committee and external advisers attended on an ad hoc basis to advise the Committee as necessary. During the year ended 31 March 2015 the Committee was chaired by Holly Koeppel, one of the shareholder representatives.

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

| | |
|---|---|
| Scott Auty | 3/4 |
| Stuart Baldwin | 2/4 |
| Milton Fernandes | 4/4 |
| Holly Koeppel | 4/4 |
| Jane Seto | 3/4 |
| Kevin Whiteman | 4/4 |
| Martin Havenhand (YW Director) | 2/2 |

For guidance in recommending remuneration packages, the Committee used published surveys carried out by remuneration consultants, as well as internal research, together with other ad hoc projects to support the objective of ensuring competitive and sustainable remuneration. New Bridge Street Consultants advised the Group and the Committee on a variety of remuneration related issues. The Group did not use New Bridge Street Consultants in any other capacity.

In 2014/15, 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 2014/15 they were paid a fee of £6,238 (2014: £6,426).

The Committee made recommendations to the Board of Kelda Holdings Limited in respect of the Group on the framework of executive remuneration, and its cost. It determined the remuneration and conditions of employment of the Chairman, executive directors and the next most senior category of executives, including the terms of any compensation in the event of early termination of an executive director's contract. 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 and takes account of the views of the shareholder representatives who sat on the Committee. 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 61. 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 the customers of the Group's businesses. 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 2015/16*

The overall remuneration policy for executives remains unchanged for 2015/16. 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 2015 have been determined. The financial targets for the long term incentive schemes for 2013 and 2014 have been reviewed so that they are in line with the OFWAT Final Determination.

There is one minor change to the LTIP policy for 2015. The LTIP scheme continues to consider three performance conditions, Service Incentive Mechanism (SIM), Serviceability and Cash Available for Distributions. The SIM performance condition will in future be 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 55 to 57.

During the year the Committee determined all aspects of remuneration for executive and non-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 2014/15 |
|---|---|---|---|---|
| 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 group 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 group 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.<br>Incentive payments are subject to clawback in the event of misstatement of performance or misconduct. | Maximum of 100% of base salary.<br><br>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 | A three year scheme awarded on 1 April | Maximum award is equal to 200% of | The committee have determined |

| | | | | |
|---|---|---|---|---|
| | the business for customers and shareholders. A significant element of the overall remuneration package and incentivises outperformance of targets. | 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. | base salary. Award is vesting following the three year period subject to performance conditions. Incentive payments are non-pensionable. | a minor change to the SIM performance condition. Executives are incentivised to deliver and outperform the business plan SIM target as well as being leader in SIM when compared to other water and sewerage companies. |
| 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.<br><br>A stakeholder scheme is available for all new colleagues including Executives. | Choice of a group 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 group. | No changes to policy. |
| Other benefits | To provide market competitive benefits. | Private healthcare provision for self and spouse.<br><br>Group lease car (4 years) or cash allowance is provided.<br><br>Private fuel provision is optional. | Healthcare is based on self and spouse cover.<br><br>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 2014/15 |
|---|---|---|---|---|
| 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 group 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 group 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.<br>Incentive payments are subject to clawback in the event of misstatement of performance or misconduct. | Maximum of 70% of base salary.<br>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 ensure 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 is vesting following the three year period subject to performance conditions.<br>Incentive payments are non-pensionable. | The committee have determined a minor change to the SIM performance condition. Executives are incentivised to deliver and outperform the business plan SIM target as well as being leader in SIM when compared to other water and sewerage companies. |
| 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.<br><br>A stakeholder scheme is available for all new colleagues including Executives. | Choice of a group 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 group. | No changes to policy. |
| Other benefits | To provide market competitive benefits. | Private healthcare provision for self and spouse.<br><br>Group lease car (4 years) or cash allowance is provided.<br><br>Private fuel provision is optional. | Healthcare is based on self and spouse cover.<br><br>The car benefit is subject to a maximum of lease costs of £6,780 pa 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 2014/15 |
|---|---|---|---|---|
| Fee | To provide competitive pay to enable attraction and retention. | Reviewed when required subject to market trends. | Current fee for Chairman is £275,000 pa.<br><br>Current fee for other INEDs is set out on page 59.<br><br>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 or below 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 2014/15 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 group 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 new 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 strategic business objectives. The same corporate objectives were shared by all directors. For the financial year 2014/15 these are set out in the table below with the percentage payable.

| Strategic Theme | Measure | % of corporate bonus awarded (% of overall bonus) |
|---|---|---|
| Trusted company | SIM qualitative<br>SIM quantitative<br>Media score (Kelda)<br>Employee trust score | 12%<br><br>(6% of max) |
| Water efficient regions | Reservoir stocks<br>Leakage rolling average<br>Demand | 12%<br><br>(6% of max) |
| Safe water | Mean zonal compliance<br>DWI incidents<br>RIDDOR* incident rate (Kelda)<br>RIDDOR* incident rate (YW)<br>DG5 other causes | 12%<br><br>(6% of max) |
| Excellent catchments, rivers and coasts | Category 1 & 2 pollution incidents<br>Category 3 pollution incidents<br>No of waste water treatment works (WWTWs) failing numeric consent | 12%<br><br>(6% of max) |
| Sustainable resources | Renewable energy generation<br>Greenhouse gas emissions | 12%<br><br>(6% of max) |
| Strong financial foundations | EBITDA (Kelda)<br>EBITDA (Yorkshire Water)<br>Capital expenditure<br>Capital efficiency | 40%<br><br>(20% of max) |

*RIDDOR is a reportable incident under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

*Annual incentive scheme targets and actual performance 2014/15*

| Strategic Theme | Measure | Business Plan 14/15 | Actual 14/15 | % of corporate bonus awarded (% of overall bonus) |
|---|---|---|---|---|
| Trusted company | SIM qualitative (out of 5)<br>SIM quantitative (score)<br>Kelda Media score (score)<br>Employee trust score | 4.70<br>146.00<br>11.5<br>7.0 | 4.74<br>145.34<br>11.5<br>6.7 | 10% (6%) |

| | | | | |
|---|---|---|---|---|
| Water efficient regions | Reservoir stocks<br>Leakage rolling average Ml/d<br>Demand Ml/d | 90.4%<br>296.8<br>1,255.26 | 90.1%<br>290.7<br>1,273.19 | 12% (6%) |
| Safe water | Mean zonal compliance<br>DWI incidents<br>RIDDOR* Incident Rate (Kelda)<br>RIDDOR* Incident Rate (YW)<br>DG5 (oc) properties | 99.930<br>15<br>3.2<br>3.9<br>302 | 99.984<br>13<br>4.4<br>3.4<br>302 | 10% (6%) |
| Excellent catchments, rivers and coasts | Category 1 & 2 pollution incidents<br>Category 3 pollution incidents<br>No of WWTW's failing numeric consent | 8<br>272<br>5 | 4<br>191<br>2 | 12% (6%) |
| Sustainable resources | Renewable energy generation GWh<br>GHG emissions tCO2e | 75.5<br>367,290 | 70.9<br>368,871 | 6% (6%) |
| Strong financial foundations | EBITDA (Kelda)<br>EBITDA (YW)<br>Capital expenditure<br>Capital efficiency | £636.9m<br>£612.7m<br>£282.5m<br>£204.5m | £653.7m<br>£624.0m<br>£285.7m<br>£208.8m | 35% (20%) |

*RIDDOR is a reportable incident under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Considering the actual company performance as detailed above (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 2014/15 were determined by the committee.

| | ***Max. Bonus %*** | ***Bonus for 2014/15 %*** | ***Bonus for 2014/15 £*** |
|---|---|---|---|
| Liz Barber | 100 | 85 | 234,616 |
| Richard Flint | 100 | 87 | 337,212 |

These payments were approved by the Committee on 26 March 2015 and were paid in June 2015.

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 strategic business objectives. The measures and targets for the group element of the annual incentive scheme are detailed in the table below.

*Annual incentive scheme targets for 2015/16*

| Strategic Theme | Measure | Business Plan 15/16 | % of corporate bonus awarded (% of overall bonus) |
|---|---|---|---|
| Trusted company | SIM<br>Media Score<br>Employee trust score | 83<br>*<br>7 | 12%<br><br>(6% of max) |
| Water efficient regions | Water supply interruptions<br>Demand<br>Leakage rolling average | 13.63 mins<br>1,255 Ml/d<br>297.1 Ml/d | 12%<br><br>(6% of max) |
| Safe water | Mean zonal compliance<br>Lost time injury incident rate (Kelda)<br>Lost time injury incident rate (Yorkshire Water)<br>Internal flooding | 99.960<br>8<br>8.4<br>1,877 | 12%<br>(6% of max) |
| Excellent catchments, rivers and coasts | Category 1 & 2 pollution incidents<br>Category 3 pollution incidents<br>No of WWTWs failing numeric consent | 8<br>237<br>0 | 12%<br>(6% of max) |
| Sustainable resources | Renewable energy generation<br>Greenhouse gas emissions | 75.54GWh<br>356 ktCO2e | 5% (12%) |
| Strong financial foundations | EBITDA (Kelda)<br>EBITDA (Yorkshire Water)<br>Capital expenditure<br>ODI net penalty/reward | **<br>**<br>**<br>zero | 40%<br><br>(20% of max) |

* Media score is under review and may change in year
** 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, Markets and Regulation 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 number of shares 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.

Following a review of the Group's LTIP arrangements a revised set of performance conditions were developed during 2011/12. The Committee determined that customer service should provide a "gateway" to any award as measured by Ofwat's customer Service Incentive Mechanism (SIM). Once through that "gateway" delivery of cashflow targets would provide a cash value to vest. Finally, long term management of the Group's assets by assessment against Ofwat's serviceability measures will secure the payment for vesting. A bonus for top customer service performance will be added. If ranked 1st in SIM league table for water and sewerage companies (WASCs), the sum to vest will be 110% of the value arrived at when assessing the payment for vesting.

At its meeting on 25 May 2011 the Committee adopted a revised set of conditions and at its meetings on 25 May 2011 and 26 April 2012, and by written resolution dated 12 June 2013. The Committee granted sets of conditional awards based on the new performance conditions which are summarised below. By written resolution dated 7 May 2014 the Committee granted a set of conditional awards subject to performance conditions that would be set once clarification was received by the Group from the PR14 process.

A summary of the LTIP performance conditions and relative values 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 Group SIM performance for 2017/18 is at or above 85 points. If SIM Performance is below 85 points in 2017/18 then the SIM Performance Condition shall not be met and the 2015 Award shall not vest. If SIM performance is 85 points or higher, the Award shall vest in accordance with the following table.

| **Performance in 2017/18** | **Vesting** |
|---|---|
| Less than 85 points | Gateway is closed, therefore the LTIP will not vest. |
| 85 points and less than 86 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 |
| 86 points and less than 88 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 |
| 88 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 86 points in 2017/18.

*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 and 2016/17 for the 2014 award and 2017/18 for the 2015 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 2017/18) then a further 10% will be added to the amount to vest in respect of the 2015 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 2017/18) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

Details of the vesting of the 2010 awards were given in the regulatory accounts for 2012/13.

The 2011 LTIP did not vest as the SIM performance condition was not met.

| 2011 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 May 2011 | 31 March 2014 | Not achieved | £700,000 | Zero |
| Liz Barber | See above | 25 May 2011 | 31 March 2014 | Not achieved | £473,800 | Zero |

The vesting of the 2012 LTIP scheme was determined by the Committee on 2 June 2015 as follows.

| 2012 LTIP | Performance conditions | Date of award | End of performance period | Measure achieved | Base value of award | Value of award vested |
|---|---|---|---|---|---|---|
| Richard Flint | See above | 26 April 2012 | 31 March 2015 | SIM – achieved 84.7 points.<br>Cash Available for Distribution – achieved 103.9% of target.<br>Serviceability – achieved Stable in each of the four asset groups.<br>Overall vesting of 75%. | £740,000 | £555,000 |
| Liz Barber | See above | 26 April 2012 | 31 March 2015 | | £528,014 | £396,011 |

**Total remuneration**

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

*Chief Executive and Director of Finance, Regulation and Markets*

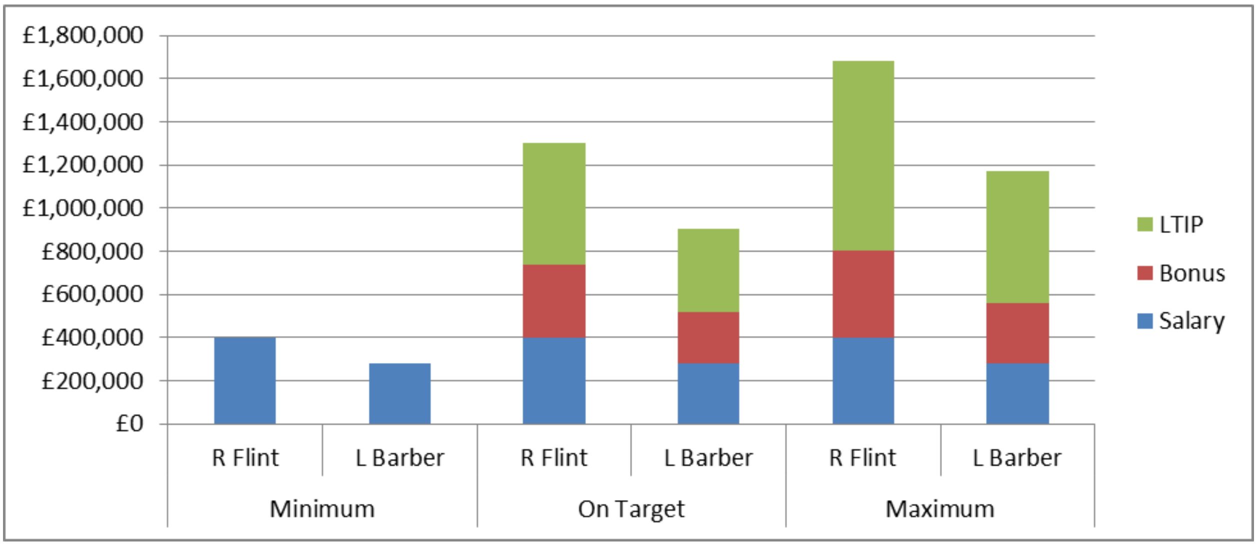
| Component of remuneration | 2014/15 | 2015/16 |
|---|---|---|
| | Value (% of salary) | Value (% of salary) |

| | 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%.

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

For the Kelda Holdings 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 2015/16 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 Group performance.

Senior managers (29 colleagues) 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. The defined benefit scheme (KGPP) is now closed to new members. 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 is paid an annual fee in respect of his role as chairman of YW and other Group responsibilities. Kevin Whiteman was the Chairman for the majority of the year under review and received an annual fee for his services of £400,000. Richard Parry-Jones was appointed as a non-executive director on 1 January 2015 and has been Chairman from 26 March 2015. His annual fee for services to the Group is £275,000.

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

The other non-executive directors of the Company 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.

| | |
|---|---|
| Richard Flint | 11 November 2009 |
| Liz Barber | 30 April 2010 |

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

The appointments of the independent non-executive directors took effect from the dates set out in the table below for a period of two years in each case.

| | |
|---|---|
| Richard Parry Jones | 1 January 2015 |
| Robert Davies | 1 October 2012 |
| Anthony Rabin | 1 September 2012 |

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 2015.

| | Salary/ fees for the year ended 31 March 2015 £000 | Taxable benefits for the year ended 31 March 2015 (see note 1) £000 | Annual bonus for the year ended 31 March 2015 (see note 2) £000 | LTIP for 3 year period ending 31 March 2015 (see note 3) £000 | **Total emoluments for the year ended 31 March 2015 £000** | Total emoluments for the year ended 31 March 2014 £000 | Pension Related benefits for the year ended 31 March 2015 (See Note 4) £000 | **Total emoluments and pension related benefits for the year ended 31 March 2015 £000** |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| Richard Flint | 388 | 11 | 337 | 555 | **1,291** | 695 | 184 | **1,475** |
| Liz Barber | 276 | 10 | 235 | 396 | **917** | 497 | 89 | **1,006** |
| **Non-executive directors** | | | | | | | | |
| Kevin Whiteman | 400 | 1 | - | - | **401** | 363 | - | **401** |
| Richard Parry-Jones | 69 | - | - | - | **69** | - | - | **69** |
| Robert Davies | 45 | - | - | - | **45** | 45 | - | **45** |
| Anthony Rabin | 81 | - | - | - | **81** | 20 | - | **81** |
| **Total** | 1,259 | 22 | 572 | 951 | **2,804** | 1,620 | 273 | **3,077** |

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 2014/15 and this will be paid in 2015/16.

Note 3 The LTIP award is for the 3 year period to 31 March 2015 and this will be paid in 2015/16.

Note 4 The pensions figure for KGPP members for 2014/15 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 2014/15 is calculated as the contributions made on their behalf by the Group. .

Kevin Whiteman, Richard Flint, Liz Barber, Richard Parry-Jones and Anthony Rabin were also directors of other group companies during 2014/15. 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.

*Pensions 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.<br>Currently total pension is £110,815 p.a. plus additional lump sum of £57,570. |

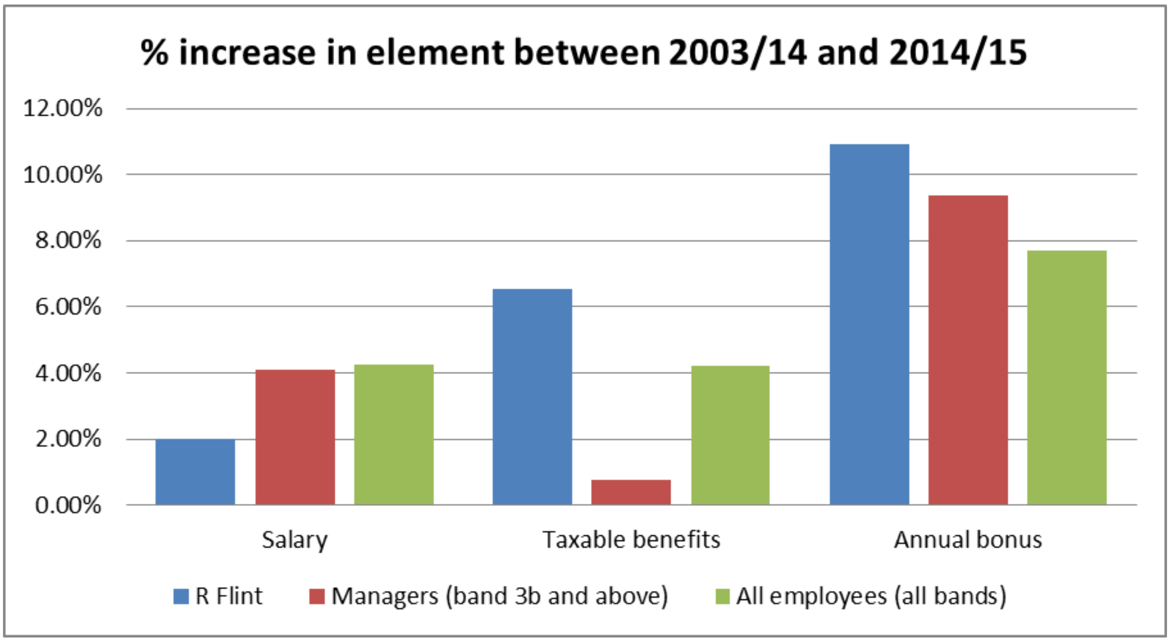
| | Value of all pension related benefits accrued | | | | | |
|---|---|---|---|---|---|---|
| | 31 March 2015 | 31 March 2014 | 31 March 2013 | 31 March 2012 | 31 March 2011 | 31 March 2010 |
| Director undertaking role of Chief Executive* | £184,025 | £165,700 | £197,909 | £186,253 | £322,837 | £112,818 |

*The value of all pension-related benefits for Richard Flint for the later five years, and the value of all pension related benefits for Kevin Whiteman for the year ending 31 March 2010, are 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 2014 and the year ended 31 March 2015 for the Chief Executive compared to the average manager and employee for each year.

| | % increase in element between 2013/14 and 2014/15 | | |
|---|---|---|---|
| | Salary | Taxable benefits | Annual bonus |
| R Flint | 2.00% | 6.54% | 10.93% |
| Managers | 4.09% | 0.78% | 9.35% |
| All employees | 4.25% | 4.22% | 7.69% |




Details for managers and all employees include employees who were employed at both 31 March 2014 and 31 March 2015 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.

The directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2015. The Directors' Report should be read in conjunction with the Strategic Report.

**Financial results for the year**

The loss for the year after tax was £279.7m (2014: £339.1m profit). The Company did not pay or recommend any dividends during the year to its shareholders (2014: £nil).

No preference shares were redeemed by Kelda Holdings Limited during the year (2014: £85.2m), in accordance with the preference share agreements entered into when the company was purchased by the current owners in 2008.

**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 Company are set out in the Strategic Report on pages 1 to 31.

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 waste water. Yorkshire Water, the Group's regulated utility business in the UK, is responsible for both water and waste water services.

Other businesses are the UK non-regulated water and waste water services business, KWS, and KeyLand, a company which primarily develops surplus property assets of Yorkshire Water.

The principal activity of Kelda Holdings Limited is that of a holding company within the Kelda Holdings Group.

**Directors**

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

| | |
|---|---|
| Executive Directors | |
| Richard Flint | Chief Executive |
| Liz Barber | Director of Finance, Regulation and Markets |
| | |
| Non-executive Directors | |
| Scott Auty | |
| Stuart Baldwin | [Resigned 29 September 2015] |
| Paul Barr | |
| Vicky Chan | |
| Robert Davies | Independent non-executive |
| [Andrew Dench] | [Appointed 30 September 2015] |
| Milton Fernandes | |
| Holly Keoppel | |
| Aparna Narain | |
| Michael Osborne | |
| Richard Parry Jones | Appointed 1 January 2015, Independent Chairman |
| Anthony Rabin | Independent non-executive |
| Jane Seto | |
| Kevin Whiteman | Chairman, resigned 31 March 2015 |
| | |
| Alternate Non-executive Directors | |
| Mark Chladek | Alternate for Milton Fernandes |
| Jean Daigneault | Alternate for Michael Osborne |
| Antonio Herrera | Alternate for Vicky Chan |
| Sara Leong | Alternate for Scott Auty |
| Hamish Mackenzie | Alternate for Jane Seto, resigned 19 March 2015 |

**Biographies**

Richard Flint. Appointed to the board of YW on 1 April 2010. He was appointed as Group Chief Executive to the board of the parent company Kelda Holdings Limited in March 2010. Richard was appointed as Chief Operating Officer of Yorkshire Water in September 2008 and Chief Executive with effect from 1 April 2010. He was director of the water business unit from 2003. Previously, he held a number of senior operational positions in Yorkshire Water.

Elizabeth (Liz) Barber. Appointed to the board of YW on 9 December 2010. Appointed as Group Finance and Regulation Director to the board of Kelda Holdings Limited in November 2010, now Group Director of Finance, Regulation and Markets. Liz joined the Group from Ernst & Young (EY) where she held a number of senior 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. 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.

Scott Auty. Appointed to the board as a non-executive director on 30 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.

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.

Vicky Chan. Appointed to the board as a non-executive director on 26 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..

Mark Chladek. Appointed to the board as alternate for Milton Fernandes in December 2012. Mark is a Director within Infracapital, the infrastructure equity arm of M&G Investments. Mark has over 13 years' experience in the infrastructure sector as both an investor and advisor. Prior to Infracapital, Mark was within the Ernst & Young Infrastructure Finance team where he advised clients on transactions across many infrastructure sectors. Mark also holds board positions on a number of infrastructure portfolio companies in the utilities, telecommunications and broadcasting sectors. Mark is a member of the Institute of Chartered Accountants in England & Wales.

Jean Daigneault. Appointed initially as an alternate director in September 2010, reappointed as alternate for Michael Osborne in February 2013. Jean is a Managing Director at PSP Investments (Montreal, Quebec) in its Infrastructure Investments group. Jean joined the Infrastructure Investments group at PSP Investments in September 2008. He is responsible for identifying and executing transactions across various infrastructure sector and geographies as well as monitoring portfolio investments. PSP Investments is a Limited Partner in the Citi Infrastructure Investor Fund and have made a significant co-investment in the Kelda Group.

Robert (Bob) Davies. Appointed to the Board as an independent non-executive director with effect from 1 October 2012. 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.

[Andrew Dench. Appointed to the Board as non-executive director with effect from 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.

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 15 years' experience in infrastructure investment. Prior to Infracapital, Milton was finance director of a specialist infrastructure PFI/PPP investor, where he was responsible for all aspects of finance and fund administration. He also holds board positions on a number of infrastructure portfolio companies in the health sector. Milton is a fellow of the Institute of Chartered Accountants in England & Wales.

Antonio Herrera. 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.

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.

Sara Leong. 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.

Aparna Narain. Appointed to the board as a non-executive director on 27 March 2014. Aparna is a Vice President of Deutsche Asset and Wealth Management, a division of Deutsche Bank. She is responsible for identifying and analysing infrastructure investment opportunities, the implementation of transactions, and the ongoing management of acquired businesses. Prior to Deutsche Asset and Wealth Management, she worked for Citigroup, advising clients in the power and utilities sectors on a range of fixed income financings.

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

Richard Parry-Jones: Chairman of the Board with effect from 26 March 2015. He is also 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 to 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 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 currently also a non-executive director of Colt Group S.A., a listed telecommunications, IT managed services and data centre company. He is chair of the Audit Committee.

Jane Seto. 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.

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 had in force during the financial year and also up to and including the date of approval of the financial statements indemnity for its directors and the company secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

**Shareholders**

The shareholders of the Group are 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

**Research and development**

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £5.0m (2014: £8.7m) was committed to research and development including £5.0m (2014: £8.4m) 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), based on their existing use value.

In 2014 certain categories of the Group's land and buildings were valued by independent qualified valuers. 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 at 31 March 2015 the directors do not consider that there has been any material change in the carrying value of these assets.

In the year ended 31 March 2015 the infrastructure assets in Yorkshire Water have been subject to a revaluation. As a result the carrying value of the infrastructure assets was increased by £234.6m and the resulting surplus taken to the revaluation reserve together with an associated deferred tax charge.

Further details are provided in note 12 to the financial statements.

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, to coincide with valuations required for future Ofwat Periodic Reviews.

**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 2015 and 31 March 2014.

| Gender | Male | | Female | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Statutory directors | 9 (64.3%) | 9 (64.3%) | 5 (35.7%) | 5 (35.7%) |
| Senior managers | 33 (76.7%) | 36 (80.0%) | 10 (23.3%) | 9 (20.0%) |
| Total employees | 2,207 (67.0%) | 2,169 (67.3%) | 1,085 (33.0%) | 1,055 (32.7%) |

We have changed our methodology in 2015 to ensure accuracy and clarity. To enable comparison we provide 2014 figures using the new methodology, making the figures different to those reported in the 2014 annual report.

| Ethnicity | White | | Black and Minority Ethnic (BME) | | Not disclosed | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Statutory directors | 10 (71.4%) | 10 (71.4%) | 3 (21.4%) | 3 (21.4%) | 1 (7.2%) | 1 (7.2%) |
| Senior managers | 35 (81.4%) | 36 (80.0%) | 1 (2.3%) | 2 (4.4%) | 7 (16.3%) | 7 (15.6%) |
| Total employees | 2,658 (80.7%) | 2,580 (80.0%) | 253 (7.7%) | 237 (7.4%) | 381 (11.6%) | 407 (12.6%) |

| Age | Year | 16-25 | 26-35 | 36-45 | 46-55 | 56-65 | 66-75 |
|---|---|---|---|---|---|---|---|
| Statutory directors | 2015 | 0 (0.0%) | 3 (21.4%) | 2 (14.3%) | 5 (35.7%) | 3 (21.4%) | 1 (7.2%) |
| | 2014 | 0 (0.0%) | 3 (21.4%) | 2 (14.3%) | 5 (35.7%) | 4 (28.6%) | 0 (0.0%) |
| Senior managers | 2015 | 0 (0.0%) | 5 (11.6%) | 14 (32.6%) | 17 (39.5%) | 4 (9.3%) | 3 (7.0%) |
| | 2014 | 0 (0.0%) | 1 (2.1%) | 12 (26.7%) | 21 (46.7%) | 8 (17.8%) | 3 (6.7%) |
| Total employees | 2015 | 237 (7.2%) | 859 (26.1%) | 822 (25.0%) | 924 (28.07%) | 438 (13.3%) | 12 (0.4%) |
| | 2014 | 254 (7.9%) | 868 (26.9%) | 825 (25.6%) | 885 (27.5%) | 385 (11.9%) | 7 (0.2%) |

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

**Employees and employment policies**

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

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 level of physical and mental attributes. They support a guaranteed interview scheme for Ex-service people. Over the next AMP 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 STEM subjects. The Group proactively 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 YW's aspiration to be the first Water company to achieve the National Equality Standard. Diversity and inclusion principles underpin all of YW and 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 AMP 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.

**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 which 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 aim to certify to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard in 2015/16. In March 2015 an external auditor completed the first of two required assessments, concluding that our system is fit for purpose and identifying areas for development. 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 £2,500 (2014: £16,000) 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.

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

**Financial instruments**

Details are provided in the financial statements section under note 22. Post balance sheet changes to the financial instruments are shown in note 23.

**Likely future developments**

Future events are dealt with as part of the Strategic Report on pages 1 to 31.

## Annual general meeting

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

## 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.

A breakdown of the Group's greenhouse gas emissions can be found in the Strategic report on page 19.

Further details on the Group's environmental policies can be found on the website at www.keldagroup.com/corporate-responsibility/respecting-our-environment.

## Community

The Group contributes actively to the communities which it serves. Through our community engagement programme we provide support and help-in-kind to a wide variety of organisations across Yorkshire. We support our colleagues in a range of community activities, including volunteering, charitable giving and community involvement. 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.

We promote safe water issues through our ongoing stakeholder contact programme and we aim to raise £1m for projects in Ethiopia as part of our partnership with the charity WaterAid.

## 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 £909.1m 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.

**Directors' statement as to 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 profit of the Group and company: and

- The Strategic Report includes a fair review of the development and performance of the business and the position of the 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 company'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 company's auditors are aware of that information.

### 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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' report was approved by a duly authorised committee of the board of directors on 2 November 2015 and signed on its behalf by:

Richard Flint, Director
2 November 2015

Company secretary: Crestbridge Ltd

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

# *Independent auditors' report to the members of Kelda Holdings Limited*

## Report on the group financial statements

### 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 2015 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 2015 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 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

# *Independent auditors' report to the members of Kelda Holdings Limited*

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.

A.J Ahmad

Arif Ahmad
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
2 November 2015

# *Kelda Holdings Limited*
# *Group income statement*
*for the year ended 31 March 2015*

| | Note | **2015** **£m** | 2014 £m |
|---|---|---|---|
| **Revenue** | 3 | **1,095.6** | 1,063.3 |
| Operating costs before exceptional items | 4 | **(678.4)** | (704.1) |
| Exceptional items | 5 | **1.6** | - |
| **Total operating costs** | | **(676.8)** | (704.1) |
| **Operating profit before share of associates and joint ventures** | | **418.8** | 359.2 |
| Share of associates' and joint ventures' profit/(loss) after tax | 13 | **0.5** | (0.1) |
| **Operating profit from continuing operations** | 3 | **419.3** | 359.1 |
| Finance income before exceptional items | 7 | **22.8** | 19.8 |
| Exceptional finance income | 5 | **9.0** | 304.1 |
| **Total finance income** | | **31.8** | 323.9 |
| Finance costs before exceptional items | 7 | **(404.6)** | (366.6) |
| Exceptional finance costs | 5 | **(378.5)** | (5.5) |
| **Total finance costs** | | **(783.1)** | (372.1) |
| **(Loss)/profit from continuing operations before taxation** | | **(332.0)** | 310.9 |
| Tax credit | 8 | **52.3** | 28.2 |
| **(Loss)/profit for the year attributable to owners of the parent** | | **(279.7)** | 339.1 |

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

# *Kelda Holdings Limited*
# *Group statement of comprehensive (expense)/income*
*for the year ended 31 March 2015*

| | Note | **2015 £m** | 2014 £m |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(279.7)** | 339.1 |
| **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 land and buildings before taxation | 12 | **-** | 17.2 |
| Gains on revaluation of infrastructure assets before taxation | 12 | **233.9** | - |
| Taxation | 8 | **(46.8)** | (3.4) |
| | | **187.1** | 13.8 |
| Remeasurements of post-employment benefit obligations: | | | |
| Remeasurement of defined benefit pension before taxation | 20 | **0.9** | 64.3 |
| Remeasurement of employer funded retirement benefit scheme before taxation | | **0.4** | - |
| Taxation | 8 | **0.2** | (20.2) |
| | | **1.5** | 44.1 |
| **Items that may be subsequently reclassified to profit or loss:** | | | |
| (Losses)/gains on hedges taken to equity: | | | |
| (Losses)/gains on hedges taken to equity before taxation | | **(6.5)** | 10.6 |
| Taxation | 8 | **1.2** | (3.3) |
| | | **(5.3)** | 7.3 |
| Taxation on other items taken directly to comprehensive income/(loss) | 8 | **-** | 39.6 |
| **Other comprehensive income for the year, net of tax** | | **183.3** | 104.8 |
| **Total comprehensive (expense)/income for the year** | | **(96.4)** | 443.9 |

# *Kelda Holdings Limited*
# *Group balance sheet*

*as at 31 March 2015*

| | Note | **2015** £m | 2014 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 10 | **1,877.1** | 1,871.9 |
| Financial assets | 11 | **156.8** | 162.6 |
| Property, plant and equipment | 12 | **6,921.2** | 6,628.0 |
| Investments in associated undertakings and joint ventures | 13 | **1.2** | 1.4 |
| Loans to associated undertakings and joint ventures | 13 | **10.4** | 9.9 |
| Trade and other receivables | 15 | **-** | 3.3 |
| Derivative financial assets | 22 | **67.8** | - |
| | | **9,034.5** | 8,677.1 |
| **Current assets** | | | |
| Inventories | 14 | **2.0** | 1.1 |
| Trade and other receivables | 15 | **197.5** | 191.0 |
| Tax assets | | **3.6** | - |
| Short term deposits | 16 | **82.0** | 78.3 |
| | | **285.1** | 270.4 |
| **Total assets** | | **9,319.6** | 8,947.5 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **(529.5)** | (492.4) |
| Deferred grants and contributions on depreciated assets | | **(2.8)** | (2.8) |
| Tax liabilities | | **-** | (6.3) |
| Borrowings | 16 | **(146.6)** | (292.3) |
| Financial liabilities | 22 | **-** | (5.7) |
| | | **(678.9)** | (799.5) |
| **Non-current liabilities** | | | |
| Borrowings | 16 | **(5,748.2)** | (5,475.2) |
| Trade and other payables | 17 | **(46.3)** | (58.9) |
| Financial liabilities | 22 | **(1,771.6)** | (1,440.9) |
| Deferred grants and contributions on depreciated assets | | **(48.9)** | (50.8) |
| Post-employment benefits deficit | 20 | **(87.5)** | (93.0) |
| Provisions for other liabilities and charges | 18 | **(8.8)** | (22.8) |
| Deferred income tax liabilities | 19 | **(531.4)** | (512.0) |
| | | **(8,242.7)** | (7,653.6) |
| **Total liabilities** | | **(8,921.6)** | (8,453.1) |
| **Net assets** | | **398.0** | 494.4 |
| | | | |
| **Equity attributable to owners of the parent** | | | |
| Equity shares | 21 | **665.7** | 665.7 |
| Hedging reserve | | **(39.2)** | (33.9) |
| Revaluation reserve | | **200.9** | 13.8 |
| Share-based payment reserve | | **5.2** | 5.2 |
| Accumulated losses | | **(434.6)** | (156.4) |
| **Total equity** | | **398.0** | 494.4 |

The financial statements on pages 79 to 145 were approved by a duly authorised committee of the board of directors on 2 November 2015 and signed on its behalf by:

**Liz Barber.** Director

Registered Number: 99329

# Kelda Holdings Limited
# Group statement of changes in equity
*as at 31 March 2015*

| | Ordinary shares £m | Hedging reserve £m | Revaluation reserve £m | Share-based payment reserve £m | Accumulated losses £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 April 2013 | 750.9 | (41.3) | 844.8 | 5.2 | (1,424.0) | 135.6 |
| Shares redeemed in the year | (85.2) | - | - | - | - | (85.2) |
| Profit for the year | - | - | - | - | 339.1 | 339.1 |
| Reduction in capital | - | - | (844.8) | - | 844.8 | - |
| Other movements | - | - | - | - | 0.1 | 0.1 |
| Total included in the Group statement of comprehensive income | - | 7.4 | 13.8 | - | 83.6 | 104.8 |
| 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 31 March 2015** | **665.7** | **(39.2)** | **200.9** | **5.2** | **(434.6)** | **398.0** |

A reduction in capital of a subsidiary in the year ended 31 March 2014 resulted in the transfer of £844.8m of the revaluation reserve above to accumulated losses. The revaluation surplus is classified as fully distributable to the owners of the parent.

# *Kelda Holdings Limited*
# *Group cash flow statement*
*for the year ended 31 March 2015*

| | Note | **2015 £m** | 2014 £m |
|---|---|---|---|
| **Cash flows from operating activities** | 24 | **636.5** | 603.3 |
| Income taxes received | | **17.5** | 2.5 |
| Interest paid | | **(265.7)** | (251.5) |
| **Net cash generated from operating activities** | | **388.3** | 354.3 |
| **Cash flows from investing activities** | | | |
| Interest received | | **21.3** | 16.7 |
| Increase in loans to associates and joint ventures | | **(0.7)** | (0.7) |
| Proceeds on disposals of property, plant and equipment | | **1.4** | 7.1 |
| Purchases of property, plant and equipment | | **(282.2)** | (384.0) |
| Capital grants and contributions | | **20.9** | 11.9 |
| **Net cash used in investing activities** | | **(239.3)** | (349.0) |
| **Cash flows from financing activities** | | | |
| Borrowings raised (net of fees) | | **89.7** | 129.8 |
| Redemption of preference shares | | **-** | (85.2) |
| Repayments of borrowings | | **(206.0)** | (50.8) |
| Repayment of obligations under finance leases and hire purchase agreements | | **(29.0)** | (8.3) |
| **Net cash used in financing activities** | | **(145.3)** | (14.5) |
| **Net increase/(decrease) in cash and cash equivalents** | | **3.7** | (9.2) |
| **Cash and cash equivalents at the beginning of the year** | | **78.3** | 87.5 |
| **Cash and cash equivalents at the end of the year** | 16 | **82.0** | 78.3 |

### 1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2015 were authorised for issue by the Board of directors on 2 November 2015 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 2015.

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 93 to 94.

**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

## 2. Accounting policies (continued)

depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the income statement.

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

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

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

***Accounting for leases***
*Finance leases*
Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised, at the lower of the fair value of the leased property and the present value of future lease payments, in property, plant and equipment and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the income statement over the shorter of the estimated useful life and the term of the lease. 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

## 2. Accounting policies (continued)

on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

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

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

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

**Employee benefits**

***Pension plans***
(i) Defined contribution scheme
The Group operates two defined contribution schemes for those members of staff who are not members of its defined benefit scheme. Two pension plans exist under which the Group pays a fixed contribution into a separate entity which operates the schemes. The other provides the employees with a lump sum on retirement, 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

## 2. Accounting policies (continued)

currency as the obligations and having the same terms to maturity as the related pension liability, applied to the estimated future cash outflows arising from these obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains or losses (along with any deferred tax on them) are recognised in the statement of comprehensive income.

**Share capital**
Ordinary shares are classified as equity.

**Exceptional items**
Exceptional items are items which derive from events or transactions that fall within the ordinary activities of the 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.

## 2. Accounting policies (continued)

**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 3.30% (2014: 4.55%). Any changes in these assumptions will impact the carrying amount of the pension obligation.

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

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

- Fair value of financial instruments

The Group's accounting policy for financial instruments is detailed on pages 90 and 91. 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 £15.0m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £12.1m 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% (2014: 6.25%) and a long term inflation rate of 2.75% (2014: 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 recoverable amount of goodwill exceeds its carrying amount by £10.1m (2014: £761.8m). Were the discount rate or inflation rate used to increase from management's estimates or cash flows to decrease from managements assumption, the headroom available in the goodwill impairment review would be eliminated. Further details relating to goodwill are disclosed in note 10 of the financial statements.

**2. Accounting policies (continued)**

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on pages 87 and 88 of the financial statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

Certain categories of PPE are held at valuation based on value in use. Value in use is determined using a discounted cashflow model which requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review. The Group is required to evaluate the carrying value of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable.

- Provision for doubtful debts

At each balance sheet date, the Group evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results positively or negatively. As at 31 March 2015 current trade receivables were £132.7m (2014: £125.4m), 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 2014 and do not have a material impact on the Group:

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

## 2. Accounting policies (continued)

- IFRIC 21 'Levies'

The following standards, interpretations and amendments to existing standards are effective for annual periods starting on or after 1 January 2015 and have not been early adopted by 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 not yet effective and have not been early adopted by the Group:

- Amendment to IFRS 11 'Joint arrangements"
- Amendment to IAS 16 'Property, plant and equipment'
- IFRS 14 'Regulatory deferral accounts'
- Amendments IAS 27
- Amendments to IFRS 10 and IAS 27
- Annual improvements 2014 cycle amending IFRS 5, IFRS 7, IAS19 and IAS34.

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 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.

## 3. Segmental information (continued)

Year ended 31 March 2014

| | 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 | 973.5 | 175.9 | 12.3 | 6.2 | 1,167.9 | (12.1) | 1,155.8 |
| Inter-company revenue | (3.5) | (88.8) | (0.2) | - | (92.5) | - | (92.5) |
| External revenue | **970.0** | **87.1** | **12.1** | **6.2** | **1,075.4** | **(12.1)** | **1,063.3** |
| Depreciation | (270.3) | (14.8) | (0.3) | 36.1 | (249.3) | - | (249.3) |
| Amortisation of deferred grant income | 2.9 | - | - | - | 2.9 | - | 2.9 |
| Other operating costs | (319.1) | (54.1) | (12.9) | (83.7) | (469.8) | 12.1 | (457.7) |
| | **383.5** | **18.2** | **(1.1)** | **(41.4)** | **359.2** | **-** | **359.2** |
| Less associates' and joint ventures' interest | | | | | (0.1) | - | (0.1) |
| **Group operating profit from continuing operations** | | | | | **359.1** | **-** | **359.1** |
| Investment income | | | | | | | 19.8 |
| Finance costs | | | | | | | (366.6) |
| Exceptional items in finance income | | | | | | | 304.1 |
| Exceptional items in finance costs | | | | | | | (5.5) |
| **Profit from continuing operations before taxation** | | | | | | | **310.9** |
| Tax credit | | | | | | | 28.2 |
| **Profit for the year attributable to owners of the parent** | | | | | | | **339.1** |

### 3. Segmental information (continued)

Year ended 31 March 2014

| | UK regulated water services | UK service operations | Property development | Other companies and consolidation adjustments | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Assets | 12,500.8 | 353.8 | 42.8 | (4,029.6) | 8,867.8 |
| Investments in associates and joint ventures accounted for by the equity method | - | - | 1.4 | - | 1.4 |
| Liabilities | (5,382.1) | (188.2) | (19.7) | 2,904.4 | (2,685.6) |
| Net debt | (4,522.3) | (137.9) | - | (1,029.0) | (5,689.2) |
| **Net assets** | **2,596.4** | **27.7** | **24.5** | **(2,154.2)** | **494.4** |
| **Other information** | | | | | |
| Capital additions | **344.5** | **7.1** | - | **22.1** | **373.7** |

Net debt of £5,689.2m as noted above includes cash of £75.6m and short term deposits of £2.7m which are included in the balance sheet within total assets; and borrowings of £5,767.5m 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 £985.5m 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 2014.

## 4. Operating costs before exceptional items

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Own work capitalised | **(36.3)** | (35.9) |
| Raw materials and consumables | **31.7** | 32.9 |
| Other external charges | **301.1** | 302.4 |
| Staff costs (note 6) | **132.6** | 134.9 |
| Depreciation of property, plant and equipment (note 12) | | |
| On owned assets | | |
| - UK infrastructure | **36.3** | 58.0 |
| - other assets | **191.1** | 182.2 |
| On assets held under finance lease | | |
| - UK infrastructure | **1.4** | 1.4 |
| - other assets | **7.3** | 7.7 |
| Impairment of plant and equipment | **1.2** | - |
| Operating lease rentals - minimum lease payments | | |
| - plant and equipment | **1.9** | 2.2 |
| - other | **1.5** | 1.4 |
| Amortisation of grants and contributions | **(2.9)** | (2.9) |
| Amortisation of intangible assets (note 10) | **2.1** | 2.1 |
| Research and development | **-** | 0.3 |
| Movement of fair value of energy contracts (note 22) | **(6.4)** | 6.4 |
| Impairment of trade receivables | **26.5** | 18.4 |
| Impairment of loans to related parties | **0.6** | 5.9 |
| Profit on disposal of property, plant and equipment | **(2.2)** | (5.9) |
| Other operating income | **(9.1)** | (7.4) |
| | **678.4** | 704.1 |

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 27, is calculated as follows:

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Group operating profit before share of associates and joint ventures | **418.8** | 359.2 |
| Add back exceptional items | **(1.6)** | - |
| Add back depreciation and amortisation of capital grants (as above) | **233.2** | 246.4 |
| Add back amortisation of intangible assets (as above) | **2.1** | 2.1 |
| Add back impairment of fixed assets | **1.2** | - |
| **EBITDA** | **653.7** | 607.7 |

## 4. Operating costs before exceptional items (continued)

### Auditors' remuneration

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements | **-** | 0.1 |
| Fees payable to the Group's auditors for other services: | | |
| - The audit of company's subsidiaries pursuant to legislation | **0.3** | 0.2 |
| - Fees for other services | **-** | 0.1 |
| | **0.3** | 0.4 |

## 5. Exceptional items

Exceptional items comprise:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Included in operating costs:** | | |
| Release KGI Bridgeport company provision | **9.1** | - |
| Contract compliance costs | **(7.5)** | - |
| | **1.6** | - |
| **Included in finance income** | | |
| Movement of fair value of index linked swaps | **-** | 298.2 |
| Movement of fair value of finance lease interest rate swaps | **-** | 5.9 |
| 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 | **4.8** | - |
| | **9.0** | 304.1 |
| **Included in finance costs** | | |
| Movement of fair value of index linked swaps | **(369.9)** | - |
| Movement of fair value of finance lease interest rate swaps | **(8.6)** | - |
| Movement of fair value of combined cross currency interest rate swaps and associated bonds | **-** | (0.3) |
| Movement of fair value of fixed to floating interest rate swaps and associated bonds | **-** | (5.2) |
| | **(378.5)** | (5.5) |

Included in operating costs is an exceptional gain of £9.1m, relating to the release of the Bridgeport provision which is no longer required (see note 18), and an exceptional item of £7.5m for the cost of meeting contractual obligations at the Aberdeen site. Both are one-off in nature.

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

**5. Exceptional items (continued)**

have been valued at the reporting date at fair value, which at 31 March 2015 resulted in a £1,858.3m liability (2014: £1,446.4m).

Of the year on year movement of £411.9m, a charge of £61.6m (2014: £15.6m) relating to RPI accretion has been recognised within finance costs, a charge of £369.9m (2014: £298.2m credit) has been recognised as an exceptional finance cost and the net remaining movement £19.6m (2014: £Nil) 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 2015 resulted in a £24.2m liability (2014: £15.7m). The year on year increase of the liability of £8.6m (2014: £5.9m decrease) 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 2015. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £4.2m credit (2014: £0.3m charge) to the income statement.

Exceptional finance income also include the fair value movement of fixed to floating interest rate swaps which were nominated as fair value through profit and loss on inception. These fair value interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2015. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £4.8m credit (2014: £5.2m charge) to the income statement.

## 6. Directors and employees

| Average monthly number of people employed by the Group | **2015 Number** | 2014 Number |
|---|---|---|
| UK regulated water services | **2,309** | 2,415 |
| Other activities | **1,006** | 932 |
| | **3,315** | 3,347 |

| | **2015 £m** | 2014 £m |
|---|---|---|
| **Total employment costs:** | | |
| Wages and salaries | **102.7** | 104.5 |
| Social security costs | **9.8** | 9.6 |
| Other pension costs | **20.1** | 20.8 |
| | **132.6** | 134.9 |

### Directors' emoluments

| | **2015 £m** | 2014 £m |
|---|---|---|
| Aggregate emoluments | **1.8** | 2.1 |
| Employer contributions to money purchase schemes | **-** | 0.1 |
| | **1.8** | 2.2 |

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Aggregate emoluments | **0.7** | 1.0 |
| | **0.7** | 1.0 |

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

During the year ended 31 March 2015, two (2014: two) directors were 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 2015, was £0.2m (2014: £0.1m).

No director exercised share options during the year. The Group contributed £0.1m (2014: £0.1m) to a money purchase pension scheme on behalf of one director.

During the year ended 31 March 2015, two (2014: 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.

One director resigned during the financial year. No directors were compensated for loss of office during the year (2014: £nil).

## 7. Finance income and finance costs

| | 2015 £m | 2014 £m |
|---|---|---|
| **Finance income** | | |
| Interest on bank deposits | **1.5** | 0.4 |
| Interest receivable from index linked swaps | **8.6** | 7.8 |
| Interest receivable from cross currency interest rate swaps | **12.7** | 11.6 |
| **Finance income before exceptional items** | **22.8** | 19.8 |
| Exceptional finance income (note 5) | **9.0** | 304.1 |
| **Total finance income** | **31.8** | 323.9 |
| | | |
| **Finance costs** | | |
| Interest payable on guaranteed bonds | **179.6** | 195.6 |
| Interest payable on US Dollar bonds | **11.5** | 11.5 |
| Interest payable on AU Dollar bonds | **2.0** | 1.6 |
| Amortisation of issue costs in respect of bonds | **1.1** | 1.1 |
| **Total finance costs for bonds** | **194.2** | 209.8 |
| | | |
| Bank loans and overdrafts | **30.6** | 29.4 |
| RPI accretion on index linked bonds | **61.6** | 15.6 |
| Interest payable on index linked swaps | **40.4** | 39.5 |
| Interest payable on bonds issued by Kelda Eurobond Co Limited | **77.6** | 71.5 |
| Finance leases | **6.7** | 7.1 |
| Change in fair value of financial assets | **14.7** | 14.3 |
| Net interest cost on pension scheme liabilities (note 20) | **3.7** | 6.4 |
| Commitment fees and miscellaneous interest | **5.8** | 3.6 |
| **Finance costs before interest capitalisation and exceptional items** | **435.3** | 397.2 |
| Interest capitalised | **(30.7)** | (30.6) |
| **Finance costs before exceptional items** | **404.6** | 366.6 |
| Exceptional finance cost (note 5) | **378.5** | 5.5 |
| **Total finance cost** | **783.1** | 372.1 |

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

## 8. Tax credit

| | 2015 £m | 2014 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax at 21% (2014: 23%) | **0.1** | - |
| Adjustments in respect of prior years | **(26.4)** | (11.6) |
| **Total current tax from continuing operations** | **(26.3)** | (11.6) |
| **Deferred tax** | | |
| UK charge for temporary differences arising and reversing in the year | **(68.0)** | 73.6 |
| Adjustments in respect of prior years | **38.8** | (44.6) |
| Effect of change in tax rates | **3.2** | (45.6) |
| **Total deferred tax on continuing activities (note 19)** | **(26.0)** | (16.6) |
| **Total tax credit on (loss)/ profit from ordinary activities** | **(52.3)** | (28.2) |
| | | |
| **Tax relating to items charged/(credited) to equity** | | |
| **Deferred tax:** | | |
| Actuarial (gains)/losses in respect of defined benefit pension schemes | **(0.2)** | 20.2 |
| Movement in fair value of hedges | **(1.2)** | 3.3 |
| Impact of change in deferred tax rate on fair value adjustment of infrastructure assets | **-** | (39.6) |
| Revaluation of infrastructure assets | **46.8** | - |
| Revaluation of property, plant and equipment | **-** | 3.4 |
| **Tax charge/(credit) in the Group statement of comprehensive income** | **45.4** | (12.7) |

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 21% (2014: 23%) to the (loss)/ profit on ordinary activities before tax is as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| (Loss)/profit from continuing operations before taxation | **(332.0)** | 310.9 |
| Less: share of associates' and joint ventures' (profit)/loss before tax | **(0.5)** | 0.1 |
| | **(332.5)** | 311.0 |
| Current and deferred tax on Group (loss)/profit on ordinary activities at the standard UK tax rate | **(69.8)** | 71.5 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **5.3** | 9.2 |
| Income not chargeable for tax purposes | **(3.4)** | (7.1) |
| Change in deferred tax rate | **3.2** | (45.6) |
| Adjustments in respect of prior years | **12.4** | (56.2) |
| **Group current and deferred tax credit for the year** | **(52.3)** | (28.2) |

Adjustments in respect of prior years includes a reclassification of current tax liability to deferred tax liability of £18.0m

The Finance Act 2013 introduced a reduction in the rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. These rates were substantively enacted on 2 July 2013 and, therefore, are included in these financial statements.

## 8. Tax credit (continued)

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

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Accelerated depreciation for tax purposes | **45.9** | (159.5) |
| Fair value adjustment of infrastructure assets | **(0.1)** | 48.1 |
| Roll-over relief | **-** | (0.1) |
| Financial instruments | **(73.0)** | 97.3 |
| Retirement benefit obligations | **1.2** | (2.4) |
| **Deferred tax credit** | **(26.0)** | (16.6) |

## 9. Dividends

No dividends were paid during the year (2014: £nil).

## 10. Intangible assets

| | **Intangible rights under concession contracts** | **Capitalised bid costs** | **Goodwill** | **Total** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| **Cost** | | | | |
| At 31 March 2013 | 67.6 | 15.9 | 1,800.3 | 1,883.8 |
| Additions | 1.3 | - | - | 1.3 |
| At 31 March 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** |
| **Accumulated amortisation** | | | | |
| At 1 April 2013 | 6.0 | 5.1 | - | 11.1 |
| Amortisation | 1.4 | 0.7 | - | 2.1 |
| At 31 March 2014 | 7.4 | 5.8 | - | 13.2 |
| Amortisation | 1.2 | 0.9 | - | 2.1 |
| **At 31 March 2015** | **8.6** | **6.7** | **-** | **15.3** |
| **Net book value carried forward** | **67.6** | **9.2** | **1,800.3** | **1,877.1** |
| Net book value brought forward | 61.5 | 10.1 | 1,800.3 | 1,871.9 |

Intangible rights under concession contracts arose on the acquisition of AES by Kelda Non Reg Holdco Limited on 23 April 2010. This consisted of 50% of the ordinary share capital of AES, which added to the 50% already held by Kelda Water Services Limited, brought the Group's ownership to 100%.

On acquisition the fair value of intangible rights arising under concession contracts, in line with IFRIC 12, was £64.9m.

## 10. Intangible assets (continued)

***Impairment tests for goodwill***

Existing goodwill of £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.

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

| | **2015** | 2014 |
|---|---:|---:|
| Long term inflation (post 2016) | **2.75%** | 2.75% |
| Discount rate (post-tax) | **6.15%** | 6.25% |

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

The directors have prepared an impairment test which showed that there was no impairment of goodwill for the year ended 31 March 2015 or year ended 31 March 2014.

Sensitivities to change in the above assumptions are disclosed on page 93.

## 11. Financial assets

| | **2015** | 2014 |
|---|---:|---:|
| | **£m** | £m |
| At 1 April | **162.6** | 168.6 |
| Additions | **6.7** | 7.0 |
| Movement in fair value | **(12.5)** | (13.0) |
| **At 31 March** | **156.8** | 162.6 |

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.

**11. Financial assets (continued)**

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

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

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

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

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

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

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

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

## 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 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** |

During the year the Group capitalised borrowing costs amounting to £30.7m (2014: £30.6m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.94% (2014: 3.97%).

| | Land and Buildings | Infrastructure assets | Plant and equipment | Under construction | Group total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Cost or valuation | | | | | |
| At 1 April 2013 | 1,760.1 | 3,413.8 | 2,912.5 | 476.8 | 8,563.2 |
| Additions at cost | 63.3 | 124.6 | 135.7 | 61.9 | 385.5 |
| Grants and contributions | - | - | - | (11.8) | (11.8) |
| Transfers on commissioning | 24.0 | 10.4 | 44.4 | (78.8) | - |
| Revaluation | 14.6 | - | - | - | 14.6 |
| Disposals | (4.4) | - | (14.1) | (0.5) | (19.0) |
| At 31 March 2014 | 1,857.6 | 3,548.8 | 3,078.5 | 447.6 | 8,932.5 |
| | | | | | |
| Accumulated depreciation | | | | | |
| At 1 April 2013 | 445.5 | 58.4 | 1,570.0 | - | 2,073.9 |
| Charge for the year | 33.2 | 59.4 | 156.7 | - | 249.3 |
| Revaluation | (2.6) | - | - | - | (2.6) |
| Impairment | 0.9 | - | - | - | 0.9 |
| Disposals | (3.4) | - | (13.6) | - | (17.0) |
| At 31 March 2014 | 473.6 | 117.8 | 1,713.1 | - | 2,304.5 |
| | | | | | |
| Net book amount at 31 March 2014 | 1,384.0 | 3,431.0 | 1,365.4 | 447.6 | 6,628.0 |

## 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 | (37.1) | (27.1) | (138.6) | **(202.8)** |
| **Net book amount at 31 March 2015** | **71.5** | **44.2** | **43.3** | **159.0** |
| Net book amount at 31 March 2014 | 73.3 | 45.5 | 48.4 | 167.2 |

The Group's infrastructure assets were valued at 31 March 2015. 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 £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 2015 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 £3,573.3m (2014: £3,320.1m).

Categories of assets revalued as at 31 March 2015 are as follows:

| | Revalued amount £m | Historical cost basis £m |
|---|---|---|
| Infrastructure assets | 3,801.6 | 2,323.8 |
| Non-specialist properties | 18.1 | 15.2 |
| Rural estates | 59.0 | 0.5 |
| Residential properties | 3.0 | - |
| **Net book amount of assets revalued** | **3,881.7** | **2,339.5** |

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

| | Revalued amount £m | Historical cost basis £m |
|---|---|---|
| 1 April 2013 | 67.5 | 17.1 |
| Additions to revalued assets | 0.4 | 0.4 |
| Valuation surplus recognised during the year (net of impairment) | 16.3 | - |
| Disposal of revalued assets | (1.5) | (0.3) |
| Aggregate depreciation | (0.7) | (0.4) |
| 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) |
| **31 March 2015** | **80.1** | **15.7** |

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

| | Revalued amount £m | Historical cost basis £m |
|---|---|---|
| At cost | 3,801.6 | 3,544.8 |
| Aggregate depreciation | - | (1,221.0) |
| **31 March 2015** | **3,801.6** | **2,323.8** |

## 13. Investments

| | Share of net liabilities in associated and joint venture undertakings | Loans to associated and joint venture undertakings | Total investments in associated and joint venture undertakings |
|---|---|---|---|
| | £m | £m | £m |
| **Cost and share of post acquisition retained losses** | | | |
| At 1 April 2013 | (5.4) | 9.1 | 3.7 |
| Share of sustained loss for the year | (0.1) | - | (0.1) |
| Loans advanced during the year | - | 0.8 | 0.8 |
| 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 31 March 2015** | **(5.0)** | **10.4** | **5.4** |

Of the share of net liabilities in the table above of £5.0m (2014: £5.5m), the share of losses relating to certain associated undertakings of £6.2m (2014: £6.9m) is held as a provision in line with IAS 27. The remaining asset balance of £1.2m (2014: £1.4m) is shown as an investment relating to the share of net assets held.

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

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Non-current assets | **5.2** | 4.6 |
| Current assets | **2.8** | 4.1 |
| **Share of gross assets** | **8.0** | 8.7 |
| Current liabilities | **(13.0)** | (14.2) |
| **Share of liabilities** | **(13.0)** | (14.2) |
| **Share of net liabilities** | **(5.0)** | (5.5) |
| | | |
| **Operating profit/(loss)** | **0.5** | (0.1) |
| Finance costs | **-** | - |
| **Profit/(loss) before tax** | **0.5** | (0.1) |
| Tax charge | **-** | - |
| **Retained profit/(sustained loss)** | **0.5** | (0.1) |

## 14. Inventories

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Raw materials and consumables | **2.0** | 1.1 |

## 15. Trade and other receivables

| Amounts falling due within one year: | 2015 £m | 2014 £m |
|---|---|---|
| Trade receivables | **132.7** | 125.4 |
| Provision for impairment of trade receivables | **(28.6)** | (26.2) |
| | **104.1** | 99.2 |
| Provision for impairment of loans to associates | **(6.5)** | (5.9) |
| Prepayments and accrued income | **77.3** | 72.3 |
| Other tax and social security | **8.2** | 7.8 |
| Other receivables | **14.4** | 17.6 |
| | **197.5** | 191.0 |

| **Amounts falling due in more than one year:** | | |
|---|---|---|
| Other receivables | **-** | 3.3 |

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:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Main charges trade receivables:** | | |
| Past due but not impaired | **79.7** | 78.7 |
| Past due and impaired | **27.1** | 24.9 |
| **Other trade receivables:** | | |
| Past due but not impaired | **24.4** | 20.5 |
| Past due and impaired | **1.5** | 1.3 |
| | **132.7** | 125.4 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| **Main charges trade receivables:** | | |
| Less than one year overdue | **52.7** | 53.6 |
| Between one and two years overdue | **15.2** | 13.9 |
| Between two and three years overdue | **6.5** | 6.0 |
| Between three and four years overdue | **2.9** | 2.8 |
| More than four years overdue | **2.4** | 2.4 |
| **Other trade receivables:** | | |
| Less than one year overdue | **24.4** | 20.5 |
| Between two and three years overdue | **-** | - |
| | **104.1** | 99.2 |

### 15. Trade and other receivables (continued)

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

| | 2015 £m | 2014 £m |
|---|---|---|
| **Main charges trade receivables:** | | |
| Less than one year overdue | **10.9** | 10.2 |
| Between one and two years overdue | **6.0** | 5.4 |
| Between two and three years overdue | **4.2** | 3.7 |
| Between three and four years overdue | **3.2** | 2.9 |
| More than four years overdue | **2.8** | 2.7 |
| **Other trade receivables:** | | |
| Less than one year overdue | **1.5** | 1.3 |
| | **28.6** | 26.2 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Provision brought forward | **26.2** | 25.7 |
| Provision for impairment | **26.5** | 18.4 |
| Amounts written off | **(24.1)** | (17.9) |
| **Provision at 31 March** | **28.6** | 26.2 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Cash and cash equivalents | **60.3** | 75.6 |
| Short-term deposits | **21.7** | 2.7 |
| | **82.0** | 78.3 |

At 31 March 2015, the Group had available £909.1m (2014: £650.3m) of undrawn committed borrowing facilities.

### (ii) Borrowings

| **Current borrowings:** | 2015 £m | 2014 £m |
|---|---|---|
| Bank borrowings | **47.5** | 198.4 |
| Bank borrowings under Kelda Finance facility | **65.0** | 65.0 |
| Finance lease liabilities | **34.1** | 28.9 |
| | **146.6** | 292.3 |

| **Non-current borrowings:** | 2015 £m | 2014 £m |
|---|---|---|
| Bank borrowings | **418.8** | 455.9 |
| Fixed rate guaranteed bonds due in less than 5 years | **722.4** | 447.9 |
| Fixed rate guaranteed bonds due in more than 5 years | **1,751.5** | 1,867.7 |
| Index linked guaranteed bonds due in more than 5 years | **1,100.6** | 1,079.9 |
| RPI uplift on index linked bonds | **149.7** | 107.7 |
| Fixed rate US Dollar bonds due in less than 5 years | **28.2** | 29.4 |
| Fixed rate US Dollar bonds due in more than 5 years | **285.8** | 236.7 |
| Fixed rate AUS Dollar bonds due in more than 5 years | **28.4** | 27.3 |
| Bonds issued by Kelda Eurobond Co Limited | **1,062.9** | 985.5 |
| Other borrowings | **-** | 3.2 |
| Finance lease liabilities | **199.9** | 234.0 |
| | **5,748.2** | 5,475.2 |

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

*6% guaranteed bonds 2017 £448.5m (2014: £447.9m)*
These bonds are repayable in one sum on 19 August 2017. The interest is charged at 6%.

*6% guaranteed bonds 2019 £273.9m (2014: £273.6m)*
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:**

*6.5876% guaranteed bonds 2023 (Exchange bonds) £199.1m (2014: £197.0m)*
These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

**16. Financing (continued)**

**(ii) Borrowings (continued)**
*5.375% guaranteed bonds 2023 (Stranded bonds) £4.5m (2014: £4.3m)*
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 (2014: £6.3m)*
These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

*6.454% guaranteed bonds 2027 (Exchange bonds) £125.8m (2014: £124.6m)*
These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

*6.6011% guaranteed bonds 2031 (Exchange bonds) £262.2m (2014: £262.9m)*
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 (2014: £0.7m)*
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

*5.5% guaranteed bonds 2037 £183.2m (2014: £182.2m)*
These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

*6.375% guaranteed bonds 2039 £304.8m (2014: £305.3m)*
These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

*5.75% guaranteed bonds 2020 £197.1m (2014: £196.7m)*
These bonds were taken out on 6 February 2013 and are repayable in one sum on 17 February 2020. The interest is charged at 5.75%.

3.625% *guaranteed bonds 2029 £266.2m (2014: £227.9m)*
These bonds were issued on 1 August 2012 are repayable in one instalment on 1 August 2029. The interest is charged at 3.625%.

*4.965% Class B guaranteed bonds 2033 £101.5m (2014: £86.2)*
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 £99.9m (2014: £Nil)*
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) £169.6m (2014: £166.6m)*
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 £324.8m (2014: £322.2m)*
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.

## 16. Financing (continued)

### (ii) Borrowings (continued)

*2.16% % index linked guaranteed bonds 2041 £53.3m (2014: £52.8m)*
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 £69.1m (2014: £67.6m)*
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 £119.4m (2014: £115.4m)*
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.

*1.758% index linked guaranteed bonds 2054 £88.2m (2014: £86.1m)*
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 £121.7m (2014: £118.0m)*
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 £101.3m (2014: £98.8m)*
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 £53.2m (2014: £52.4m)*
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.

## 16. Financing (continued)

**(ii) Borrowings (continued)**

- $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).

**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 £29.5m (1 - 2 years), £116.3m (2 – 5 years) and £129.8m (more than 5 years), and PFI loans relating to service concession contracts repayable as £10.7m (1 – 2 years), £35.8m (2 – 5 years) and £96.7m (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 2.222% (2014: 3.001%).

**Bonds issued by Kelda Eurobond Co Limited £1,062.9m (2014: £985.5m)**
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 2015 £m** | Minimum lease payments 2014 £m |
|---|---|---|
| No later than 1 year | **49.4** | 42.5 |
| Later than 1 year and no later than 5 years | **160.7** | 194.4 |
| Later than 5 years | **100.7** | 131.6 |
| | **310.8** | 368.5 |
| Less: future finance charges on finance lease liabilities | **(76.8)** | (105.6) |
| Present value of lease obligations | **234.0** | 262.9 |
| Amount due for settlement within 12 months | **34.1** | 28.9 |
| Amount due for settlement after 12 months | **199.9** | 234.0 |
| | **234.0** | 262.9 |

### 16. Financing (continued)

**(iii) Finance leases (continued)**
All lease obligations are denominated in sterling.

The weighted average lease term is 10.0 years (2014: 11.0 years). For the year ended 31 March 2015 the average effective borrowing rate was 1.8% (2014: 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: | 2015 £m | 2014 £m |
|---|---|---|
| Trade payables | **65.0** | 58.3 |
| Capital payables | **69.0** | 66.4 |
| Social security and other taxes | **2.3** | 2.6 |
| Receipts in advance | **55.9** | 57.2 |
| Interest payable | **115.4** | 111.7 |
| Deferred income | **180.7** | 161.9 |
| Other payables | **41.2** | 34.3 |
| | **529.5** | 492.4 |
| **Amounts falling due after more than one year:** | | |
| Interest payable | **30.0** | 42.7 |
| Other payables | **16.3** | 16.2 |
| | **46.3** | 58.9 |

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 2013 | 21.5 |
| Provision created in relation to losses in associated undertakings | 0.3 |
| Provision created in relation to dilapidation claims | 0.8 |
| Provision created in relation to an onerous contract | 0.2 |
| 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 31 March 2015** | **8.8** |

Provisions include £0.5m (2014: £14.4m) 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. A release of £9.1m, was part of the provision no longer required has been recognised in the year, with the remaining provision of £0.5m to be utilised as termination costs on

## 18. Provisions for other liabilities and charges (continued)

the contract are incurred.

In addition provisions include £6.2m (2014: £6.9m) in relation to losses relating to certain associated undertakings (note 13) and £0.9m (2014: £0.8m) 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

| | Accelerated capital allowances | Revaluation reserve | Fair value adjustment of infrastructure assets | Roll-over relief | Financial instruments | Pension obligations | Total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 April 2013 | 658.7 | 252.9 | 45.3 | 0.8 | (380.5) | (35.9) | 541.3 |
| Transfer on capitalisation of revaluation reserve | - | (252.9) | 252.9 | - | - | - | - |
| (Credit)/charge to income statement | (159.5) | - | 48.1 | (0.1) | 97.3 | (2.4) | (16.6) |
| Charge/(credit) to equity | - | 3.4 | (39.6) | - | 3.3 | 20.2 | (12.7) |
| At 1 April 2014 | 499.2 | 3.4 | 306.7 | 0.7 | (279.9) | (18.1) | 512.0 |
| Transfer | 47.4 | - | (47.4) | - | - | - | - |
| (Credit)/charge 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 31 March 2015** | **592.5** | **3.4** | **306.0** | **0.7** | **(354.1)** | **(17.1)** | **531.4** |

The Group has unrecognised capital losses of £16.9m (2014: £17.3m) 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.

**20. Pensions (continued)**

**(i) Characteristics of and risks associated with the Group's schemes (continued)**

The majority of members paid contributions over the year ended 31 March 2015 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 2015.

An accrual for unfunded benefits of £9.1m has been included in the Group's financial statements at 31 March 2015 (2014: £7.4m).

**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.

## 20. Pensions (continued)

### (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.

| | **2015** | 2014 |
|---|---|---|
| | **%** | % |
| Inflation (RPI) | **2.95** | 3.35 |
| Inflation (CPI) | **2.05** | 2.45 |
| Rate of increase in salaries | **3.95** | 4.35 |
| Rate of increase to pensions in payment and deferred pensions | **2.95** | 3.40 |
| Discount rate for scheme liabilities | **3.30** | 4.55 |
| Life expectancy for a male pensioner aged 60 (in years) | **26.60** | 26.60 |
| Projected life expectancy at age 60 for male aged 40 (in years) | **28.50** | 28.60 |

### (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.

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| **Fair value of scheme assets** | | |
| Equities | **203.7** | 242.9 |
| Bonds | **370.8** | 325.3 |
| Property | **74.8** | 82.4 |
| Other | **659.1** | 417.7 |
| Total value of assets | **1,308.4** | 1,068.3 |
| Present value of scheme liabilities | **(1,395.9)** | (1,161.3) |
| Post employment benefit deficit | **(87.5)** | (93.0) |

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

| | **2015** **£m** | 2014 £m |
|---|---|---|
| Analysis of amount charged to operating costs: | | |
| Current service cost | **13.5** | 16.4 |
| Past service cost | **0.3** | 2.4 |
| Net interest cost on pension scheme | **3.7** | 6.4 |
| Administrative expenses and taxes | **1.9** | 1.0 |
| **Amounts charged to the income statement before taxation** | **19.4** | 26.2 |
| Analysis of amounts recognised in Group statement of comprehensive income: | | |
| Return on plan assets (excluding interest income) | **(209.8)** | (19.0) |
| Effect of changes in demographic assumptions | **(2.5)** | (8.0) |
| Effect of changes in financial assumptions | **211.4** | (37.3) |
| **Actuarial gain recognised in the Group statement of comprehensive income** | **(0.9)** | (64.3) |
| **Total defined benefit cost/(income) recognised in the income statement and statement of comprehensive income** | **18.5** | (38.1) |

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

The total contributions to the defined benefit and defined contribution plans in the year ending 31 March 2016 are expected to be £24.0m for the Group (2015: £25.6m).

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2015, a cumulative pre-tax loss of £158.5m (2014: £159.4m restated) had been recorded directly in the statement of comprehensive income.

## 20. Pensions (continued)

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| **Movements in the defined benefit obligation** | | |
| At 1 April | **(1,161.3)** | (1,179.3) |
| Current service cost | **(13.5)** | (16.4) |
| Interest expense | **(51.9)** | (51.0) |
| Remeasurements: | | |
| Actuarial gains – demographic assumptions | **2.5** | 8.0 |
| Actuarial (losses)/gains – financial assumptions | **(211.4)** | 37.3 |
| Benefits paid | **40.1** | 42.6 |
| Past service cost | **(0.3)** | (2.4) |
| Plan participants' contributions | **(0.1)** | (0.1) |
| **At 31 March** | **(1,395.9)** | (1,161.3) |
| The total defined benefit obligation comprises: | | |
| Amounts owing to active members | **(538.0)** | (418.9) |
| Amounts owing to deferred members | **(294.9)** | (231.6) |
| Amounts owing to retired members | **(563.0)** | (510.8) |
| **Total defined benefit obligation at 31 March** | **(1,395.9)** | (1,161.3) |

| | **2015 £m** | 2014 £m |
|---|---|---|
| **Changes in the fair value of scheme assets:** | | |
| At 1 April | **1,068.3** | 1,020.9 |
| Return on plan assets (excluding interest income) | **209.8** | 19.0 |
| Interest income | **48.2** | 44.6 |
| Employer contributions | **24.0** | 27.3 |
| Plan participants' contributions | **0.1** | 0.1 |
| Benefits paid | **(40.1)** | (42.6) |
| Administrative expenses paid from plan assets | **(1.9)** | (1.0) |
| **At 31 March** | **1,308.4** | 1,068.3 |

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

### (vi) Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of scheme liabilities and the resulting pension charge in the income statement and on the net defined benefit pension scheme liability is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes' assets remain unchanged, and are not intended to represent changes that are at the extremes of possibility.

**20. Pensions (continued)**

**(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 2015 | 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 | 1,308.4 | 1,308.4 | 1,308.4 | 1,308.4 | 1,308.4 | 1,308.4 |
| Present value of defined benefit obligation | (1,395.9) | (1,466.8) | (1,329.7) | (1,332.0) | (1,464.1) | (1,431.8) |
| Deficit in the scheme | (87.5) | (158.4) | (21.3) | (23.6) | (155.7) | (123.4) |

**Actuarial assumptions used in sensitivity analysis:**

| | 2015 | 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 | 3.30 | 3.05 | 3.55 | 3.30 | 3.30 | 3.30 |
| Rate of RPI assumption | 2.95 | 2.95 | 2.95 | 2.70 | 3.20 | 2.95 |
| Rate of CPI assumption | 2.05 | 2.05 | 2.05 | 1.80 | 2.30 | 2.05 |
| Rate of salary increase | 3.95 | 3.95 | 3.95 | 3.70 | 4.20 | 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 include the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

**Maturity profile of defined benefit obligation:**

The following table provides information on the weighted average duration of the defined benefit pension obligation:

| | 2015 Years | 2014 Years |
|---|---|---|
| Duration of the defined benefit obligation | 20 | 18 |

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

| | £m |
|---|---|
| Within 12 months | 41.1 |
| Between 1 and 2 years | 41.6 |
| Between 2 and 3 years | 42.6 |
| Between 3 and 4 years | 43.7 |
| Between 4 and 5 years | 44.8 |
| Between 5 and 10 years | 240.8 |

## 20. Pensions (continued)

### (vi) Sensitivity analysis (continued)

### Funding arrangements

The last triennial funding valuation of the scheme was carried out at 31 March 2012 and the next valuation is due as at 31 March 2015. The valuation has not been finalised as at the date of signing these financial statements. In the year to 31 March 2015 the Group pensionable pay and also paid lump sum deficit 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 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.

### (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 2015 was £2.8m (2014: £2.4m).

## 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 2013 | 190,000 | 1,900 | 680,311,568 | 680,311,568 | 70,602,342 | 750,915,810 |
| Redeemed during year | - | - | (85,200,493) | (85,200,493) | - | (85,200,493) |
| 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** |

## 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:

| | **2015 Less than one year £m** | **2015 More than one year £m** | **2015 Total £m** | 2014 Less than one year £m | 2014 More than one year £m | 2014 Total £m |
|---|---|---|---|---|---|---|
| Derivative financial assets: | | | | | | |
| Fixed to floating interest rate swaps | **-** | **39.0** | **39.0** | - | - | - |
| Combined cross currency interest rate swaps | **-** | **28.8** | **28.8** | - | - | - |
| | **-** | **67.8** | **67.8** | - | - | - |
| Financial liabilities: | | | | | | |
| Finance lease interest swaps | **-** | **(24.2)** | **(24.2)** | - | (15.7) | (15.7) |
| Index linked swaps | **-** | **(1,708.6)** | **(1,708.6)** | - | (1,338.7) | (1,338.7) |
| Combined cross currency interest rate swaps | **-** | **(6.5)** | **(6.5)** | - | (30.7) | (30.7) |
| Derivative financial instrument on energy contracts | **-** | **-** | **-** | (5.7) | (0.7) | (6.4) |
| Fixed to floating interest rate swaps | **-** | **-** | **-** | - | (29.3) | (29.3) |
| Other interest rate swaps | **-** | **(32.3)** | **(32.3)** | - | (25.8) | (25.8) |
| | **-** | **(1,771.6)** | **(1,771.6)** | (5.7) | (1,440.9) | (1,446.6) |
| Net debt: | | | | | | |
| Cash and short term deposits | **82.0** | **-** | **82.0** | 78.3 | - | 78.3 |
| Borrowings | **(146.6)** | **(5,748.2)** | **(5,894.8)** | (292.3) | (5,475.2) | (5,767.5) |
| | **(64.6)** | **(5,748.2)** | **(5,812.8)** | (214.0) | (5,475.2) | (5,689.2) |

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 £1,858.3m (2014: £1,446.4m) on index linked swaps. £1,708.6m (2014: £1,338.7m) is shown as index linked swaps as in the table above; the remaining £149.7m (2014: £107.7m) is shown within borrowings in note 16.

## 22. Financial instruments (continued)

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

The interest rate risk profile of the Group's financial assets and liabilities at 31 March 2015 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

### Year ended 31 March 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 |

## 22. Financial instruments (continued)

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

Year ended 31 March 2014

| | 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 | 269.3 | 41.0 | 39.9 | 38.8 | 27.9 | 98.7 | 515.6 |
| Guaranteed bonds | 133.7 | 133.7 | 133.7 | 558.4 | 106.7 | 2,859.9 | 3,926.1 |
| US Dollar bonds | 11.3 | 11.3 | 11.3 | 11.3 | 39.4 | 294.8 | 379.4 |
| Other interest rate swaps | 5.0 | 4.8 | 4.4 | 4.1 | 4.0 | 33.1 | 55.4 |
| Finance lease swaps | 2.3 | 2.0 | 1.6 | 1.4 | 1.3 | 15.1 | 23.7 |
| | 421.6 | 192.8 | 190.9 | 614.0 | 179.3 | 3,301.6 | 4,900.2 |
| **Floating rate** | | | | | | | |
| Index linked guaranteed bonds | 23.9 | 23.9 | 23.9 | 23.9 | 23.9 | 1,749.5 | 1,869.0 |
| US Dollar bonds | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 79.1 | 84.6 |
| Guaranteed bonds | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 198.2 | 230.7 |
| Bank loans | 9.3 | 10.3 | 12.1 | 13.5 | 28.9 | 256.0 | 330.1 |
| Combined cross currency interest rate swaps | 7.4 | 7.4 | 7.4 | 7.4 | 7.4 | 25.2 | 62.2 |
| Eurobonds issued by Kelda Eurobond Co Limited | 75.0 | 79.7 | 88.8 | 1,080.9 | - | - | 1,324.4 |
| Index linked swaps | 32.0 | 32.0 | 133.9 | 93.3 | 32.0 | 1,899.0 | 2,222.2 |
| Fair value interest rate swaps | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 | 86.6 | 124.6 |
| Finance leases | 42.5 | 49.9 | 115.0 | 12.7 | 16.8 | 131.6 | 368.5 |
| | 205.3 | 218.4 | 396.3 | 1,246.9 | 124.2 | 4,425.2 | 6,616.3 |
| **Non-interest bearing financial liabilities** | | | | | | | |
| Trade payables | 58.3 | - | - | - | - | - | 58.3 |
| Other payables | 322.1 | - | - | - | - | - | 322.1 |
| | 380.4 | - | - | - | - | - | 380.4 |

### (b) Financial risks

***Capital risk management***

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

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

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

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

## 22. Financial instruments (continued)

### (b) Financial risks (continued)

***Credit risk***

The Group has some exposure to credit risk through the holding of receivables on the year end balance sheet. These can be split into main charges receivables and other trade receivables.

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

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

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

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

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

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

| | | Group | | Company |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£m** | £m | **£m** | £m |
| Cash and short term deposits (see note 16) | **82.0** | 78.3 | **-** | - |
| Trade and other receivables (see note 15) | **197.5** | 191.0 | **-** | - |
| Financial assets | **67.8** | - | **-** | - |
| Investments | **11.6** | 11.3 | **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 2015 the Group had £991.1m of available liquidity (2014: £728.6m) which comprised £82.0m in available cash and short term deposits (2014: £78.3m) and £909.1m of undrawn committed borrowing facilities (2014: £650.3m).

The maturity profile on page 129 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 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 | **2015 £m** | 2014 £m |
|---|---|---|
| 1% increase in RPI leading to a decrease in profit | **(28.6)** | (43.0) |
| 1% decrease in RPI leading to an increase in profit | **28.6** | 43.0 |
| 1% increase in LIBOR leading to an increase in profit | **(9.0)** | (6.5) |
| 1% decrease in LIBOR leading to a decrease in profit | **8.5** | 6.5 |

**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 |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | | | | |
| 1) Interest rate swaps, combined cross-currency swaps, fixed rate bonds, indexed linked swaps | Assets – £67.8m; Liabilities (designated for hedging) – £549.8m ; and Liabilities (not designated for hedging) – £894.1m | Assets – £Nil Liabilities (designated for hedging) – £440.3m ; and Liabilities (not designated for hedging) – £1,487.9m | 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) – £1,020.7m | Liabilities (not designated for hedging) – £Nil | 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 £212.1m 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 2015.

| | **2015 Level 1 £m** | **2015 Level 2 £m** | **2015 Level 3 £m** | 2014 Level 1 £m | 2014 Level 2 £m |
|---|---|---|---|---|---|
| **Primary financial instruments financing the Group's operations** | | | | | |
| **Financial assets held at amortised cost** | | | | | |
| Cash and short term deposits | **(82.0)** | **-** | **-** | (78.3) | - |
| Financial assets from concession arrangements | **(156.8)** | **-** | **-** | (162.6) | - |
| Loans to associates/joint ventures | **(10.4)** | **-** | **-** | (9.9) | - |
| **Financial assets designated as Fair Value Through Profit and Loss** | | | | | |
| Fixed to floating interest rate swap assets | **-** | **(39.0)** | **-** | - | - |
| Cross-currency interest rate swaps | **-** | **(28.8)** | **-** | **-** | **-** |
| **Financial liabilities designated as Fair Value Through Profit and Loss** | | | | | |
| Fixed rate interest rate swaps in respect of finance leases | **-** | **24.2** | **-** | - | 15.7 |
| Combined cross currency interest rate fair value swaps (US and AU Dollar) | **-** | **6.5** | **-** | - | 30.7 |
| Fixed rate US Dollar bonds | **-** | **313.9** | **-** | - | 266.1 |
| Fixed rate AU Dollar bonds | **-** | **28.4** | **-** | - | 27.3 |
| Fixed rate Sterling bonds | **266.2** | **201.4** | **-** | 231.1 | 86.9 |
| Fixed to floating interest rate swaps | **-** | **-** | **-** | - | 29.3 |
| Index linked swaps | **-** | **837.6** | **1,020.7** | - | 1,446.4 |
| Energy derivative | **-** | **-** | **-** | 6.4 | - |
| **Designated as Fair Value Through Other Comprehensive Income** | | | | | |
| Other interest rate swaps | **-** | **32.3** | - | - | 25.8 |
| **Financial liabilities held at amortised cost** | | | | | |
| Fixed rate sterling bonds | **2,546.8** | **18.8** | **-** | 2,356.0 | - |
| Index linked sterling bonds | **393.8** | **1,032.1** | **-** | 1,042.5 | 105.8 |

## 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 2014 | **-** | **-** |
| Total gains or losses: | | |
| - in profit or loss | **203.2** | **203.2** |
| Settlements | **(19.6)** | **(19.6)** |
| Transfers into Level 3 | **837.1** | **837.1** |
| Balance at 31 March 2015 | **1,020.7** | **1,020.7** |

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2015:

| | 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 | 15.0 | (15.0) |
| 10 basis point change to credit curve assumption | 12.1 | (12.1) |

### Inflation linked swaps

Under the inflation linked swaps disclosed above, YW has contracted to pay a fixed real rate on an inflation accreting notional and in return receives 6 month GBP LIBOR on a semi-annual basis. The contractual obligations of 61 of the 80 inflation linked swaps require YW to pay the inflation accretion of the notional amount at maturity as a single “bullet” payment. The remaining 19 require YW to make periodic payments of the inflation accretion on the notional amount throughout the life of each swap. The 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”), the first of which are effective in February 2018, and subsequently in February 2020, February 2023, and February 2025. Under the MTC the inflation linked swaps will automatically be terminated for a cash settlement amount at each MTC date unless both YW and the respective counterparty agree to extend the MTC date or restructure the existing transactions. See note 23 for further details.

As at 31 March 2014, YW held a portfolio of 80 inflation linked swaps with a total fixed notional of £1,289 million and total fair value liability of £1,446 million.

## 22. Financial instruments (continued)

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

As at 31 March 2015, YW held 70 inflation linked swaps with a total notional of £1,289 million and a total fair value of £1,858 million, of this £452 million of the total notional of the portfolio was subject to MTCs. The increase in the liability position during the period was predominately driven by a decrease in 6M GBP LIBOR as the amount receivable by YW on the LIBOR leg of the inflation linked swaps decreased and the lower nominal discount rates acted to worsen the inflation linked cash flows, especially the principal accretion element. This was slightly offset by the pay down of accretion as part of the transaction (noted below) to remove the MTC dates of £19.6m and a decrease in forward inflation rates.

Reflecting the increased complexity involved in valuing the inflation linked swap portfolio swaps (noted below), a new model has been developed to determine the fair value. Amongst other enhancements it assists in creating a more detailed calculation of the increased long term credit risk and the funding valuation adjustment elements of the calculation. £256.1m of the total fair value as at 31 March 2015 relates to the credit risk adjustment and funding valuation adjustment. Reflecting this model and the inputs involved some of the inflation linked swaps are now considered a level 3 valuation under IFRS13 and disclosed accordingly.

Movements in the fair value of index linked swaps in respect of borrowings of £411.9m were recognised in the income statement (2014: £282.6m). Of this movement a charge of £369.9m (2014: credit of £298.2m) is recognised in exceptional finance income, a charge of £61.6m (2014: £15.6m) is recognised in finance costs to accrue for the RPI bullet payment on the swaps and the net remaining balance of £19.6m was cash paid.

**Interest rate swaps**

Income from the movement in fair value of combined cross currency interest rate swaps of £53.0m was recognised in the income statement (2014: £49.7m charge), offset by the change in fair value of the associated bonds of £48.8m (2014: £49.4m). Of the change in fair value of associated bonds, £47.8m (2014: £43.0m) relates to Fixed US Dollar bonds. The remaining £1.0m (2014: £6.4m) change in fair value relates to the movement between the fair value of AUS Dollar bonds of £33.7m when issued during the year and the fair value of £28.3m at 31 March 2015 (2014: £28.4m).

Movements in the fair value of fixed to floating interest rate swaps of £68.3m was recognised in the income statement (2014: £22.0m), offset by the change in fair value of the associated bonds of £63.5m (2014: £16.8m). £38.1m (2014: £13.8m) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £266.2m (2014: £227.9m) at 31 March 2015. £15.2m (2014: £3.0m) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £101.5m (2014: £86.2) at 31 March 2015. The remaining £10.2m change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £99.9m at 31 March 2015. 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 £8.6m were recognised in the income statement as an exceptional item (2014: £5.9m credit).

**22. Financial instruments (continued)**

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

The fair value of the floating interest rate to fixed interest rate swap instruments was a loss of £32.3m (2014: £25.8m loss). The fair value movement in the year has been charged directly to reserves as hedging criteria were met.

**(d) Hedges**

The Group's policy is to hedge interest rate risk within approved board policies and guidelines.

Interest rate swaps are used to manage interest rate exposure under a policy that requires at least 85% of Yorkshire Water and Kelda Holdco Limited net debt to be fixed or index linked. At the financial year end the proportions were 110% and 105% respectively (2014: 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 of 25 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 16 years.

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

***Hedging of interest due under finance leases***

The Group has a number of finance leases with a number of counterparties lasting from inception for periods up to 33 years. In most cases interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. The Group is therefore exposed to changes in 12 month LIBOR which could have a material effect on interest costs from year to year and over time. £59.2m of leases are reset semi-annually based on 6 month LIBOR.

In order to fix the interest cost on a proportion of its net debt, 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 recognised and asset of £28.8m

**22. Financial instruments (continued)**

**(d) Hedges (continued)**
(2014: £23.1m provision) 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 £29.1m (2014: £43.0m gain) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The group has a £33.8m combined cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an Australian dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. The hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £6.5m (2014: £7.6m) 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 gain of £5.3m (2014: £6.5m) 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 £17.3m (2014: £23.7m loss) 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 £19.2m (2014: £13.8m gain) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The Group has a £90m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has recognised an asset of £12.5m (2014: £5.6m provision) 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 £12.5m (2014: £3.0m gain) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

## 22. Financial instruments (continued)

**(d) Hedges (continued)**
During the year the Group entered into a £90m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. During the year, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements.

The Group has recognised an asset of £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 £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

During the year ended 31 March 2015 YW initiated the process to establish five transactions with three counterparties to restructure a portion of the inflation linked swap portfolio with a total fixed notional of £160m, which removed the mandatory termination clauses (MTCs) effective in February 2018.

Two of these five transactions remove the MTC date for £44m of the inflation linked swaps with an MTC date effective February 2018 with a compensating increase in the real rate coupon. In addition, £10m of the inflation accretion outstanding was paid down by YW through this process. The completion of these two transactions occurred on 5 June 2015.

The remaining three transactions also remove the MTC date, but through a different structure for the remaining £116m of the total fixed notional inflation linked swap portfolio with MTCs effective February 2018. As part of this transaction, several inflation linked swaps were transferred into and amalgamated into one single inflation swap with each of the bank counterparties. Subsequently, a portion of the inflation linked cash flows have been novated to a Special Purpose Vehicle with the LIBOR linked cash flows and a portion of the inflation linked cash flows remaining with the transaction counterparty. The overall effect of the transaction was to leave YW party to inflation linked swaps with similar terms but with the removal of the MTC compensated by an increase in the real rate coupon. In addition £25m of the inflation accretion outstanding was paid down by YW through this process. As at 31 March 2015, £20m of the total fixed notional had been novated on similar terms and £19.6m of the inflation accretion outstanding had been paid down by YW. 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.

There was no impact on the fair value calculation through the transactions that had occurred at 31 March 2015.

## 24. Additional cash flow information

Analysis of movement in net debt

| | At 31 March 2013 £m | Non cash movements £m | Cash movements £m | At 31 March 2014 £m | **Non cash movements £m** | **Cash movements £m** | **At 31 March 2015 £m** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 87.5 | - | (9.2) | 78.3 | **-** | **3.7** | **82.0** |
| Debt due within one year | (272.1) | - | 8.7 | (263.4) | **-** | **150.9** | **(112.5)** |
| Finance leases due within one year | (8.3) | - | (20.6) | (28.9) | **-** | **(5.2)** | **(34.1)** |
| | (280.4) | - | (11.9) | (292.3) | **-** | **145.7** | **(146.6)** |
| Debt due after one year | (5,099.9) | (53.6) | (87.7) | (5,241.2) | **(272.7)** | **(34.4)** | **(5,548.3)** |
| Finance leases due after one year | (262.9) | - | 28.9 | (234.0) | **-** | **34.1** | **(199.9)** |
| | (5,362.8) | (53.6) | (58.8) | (5,475.2) | **(272.7)** | **(0.3)** | **(5,748.2)** |
| **Net debt relating to continuing activities** | (5,555.7) | (53.6) | (79.9) | (5,689.2) | **(272.7)** | **149.1** | **(5,812.8)** |
| **Total net debt** | (5,555.7) | (53.6) | (79.9) | (5,689.2) | **(272.7)** | **149.1** | **(5,812.8)** |

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:

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| (Loss)/profit from continuing operations before taxation | **(332.0)** | 310.9 |
| Share of associates' and joint ventures' (profit)/loss after tax | **(0.5)** | 0.1 |
| Finance income | **(22.8)** | (19.8) |
| Finance costs | **404.6** | 366.6 |
| Exceptional finance costs/(income) (non-cash) | **369.5** | (298.7) |
| Movement of fair value of derivative financial instrument (energy contracts) | **(6.4)** | 6.4 |
| Depreciation and amortisation of capital grants | **233.2** | 246.4 |
| Amortisation of capitalised bid costs | **0.9** | 0.7 |
| Profit on disposal of property, plant and equipment | **(2.2)** | (5.9) |
| Impairment of property, plant and equipment | **1.2** | 0.9 |
| (Increase)/decrease in inventories | **(0.9)** | 0.4 |
| Increase in trade and other receivables | **(4.5)** | (2.9) |
| Increase in trade and other payables | **19.2** | 2.7 |
| Pension contributions in excess of operating costs | **(8.3)** | (7.5) |
| Movements in provisions | **(14.0)** | 2.5 |
| Other movements | **(0.5)** | 0.5 |
| **Cash generated from continuing operations** | **636.5** | 603.3 |

## 25. Commitments

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Contracts placed at 31 March | **279.2** | 331.3 |

The long term investment programme for the UK regulated water services business, which identified substantial future capital expenditure commitments in the period 1 April 2015 to 31 March 2020, was agreed as part of the Periodic Review process which was finalised in November 2014.

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.

## 25. Commitments (continued)

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | **2015 Land and buildings £m** | **2015 Other £m** | 2014 Land and buildings £m | 2014 Other £m |
|---|---|---|---|---|
| No later than 1 year | **1.6** | **2.2** | 1.3 | 1.9 |
| Later than 1 year and no later than 5 years | **6.3** | **1.6** | 5.9 | 2.4 |
| Later than 5 years | **1.7** | **-** | 3.1 | - |
| | **9.6** | **3.8** | 10.3 | 4.3 |

## 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 2015 £m** | Loans (from)/to related parties 2014 £m |
|---|---|---|
| **Joint ventures** | | |
| KeyLandmark Limited | **-** | (0.4) |
| Micklefield Properties Limited | **0.1** | 0.1 |
| Whitehall Landing Limited | **(0.3)** | (0.3) |
| Whinmoor Limited | **0.6** | 0.6 |
| Templegate Developments Limited | **(0.7)** | 2.4 |
| KeyLand Gregory Limited | **0.3** | 0.3 |
| Aire Valley Land LLP | **10.4** | 7.2 |
| | **10.4** | 9.9 |

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £Nil (2014: £0.1m). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2015 the Group made provisions totalling £6.2m for doubtful debts relating to amounts owed by related parties (2014: £5.9m).

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):

| | **2015 £m** | 2014 £m |
|---|---|---|
| Short-term benefits | **2.9** | 4.0 |
| Post-employment benefits | **0.1** | 0.1 |
| | **3.0** | 4.1 |

## 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 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 Inc | USA | USA | Ordinary | 100% |
| KGI Bridgeport Company | USA | USA | Ordinary | 100% |
| Keyland (Midpoint) Limited | England & Wales | UK | Ordinary | 100% |

## 27. Subsidiary companies (continued)

| | | | | |
|---|---|---|---|---|
| Hamsards 2595 Limited | England & Wales | UK | Ordinary | 100% |
| Springswood Limited | England & Wales | UK | Ordinary | 100% |
| The Courtyard (Midpoint) Management Company Limited | England & Wales | UK | Ordinary | 100% |
| **Holding and finance companies** | | | | |
| Kelda Eurobond Co Limited | England &Wales | UK | Ordinary | 100% |
| Kelda Group Limited | England & Wales | UK | Ordinary | 100% |
| Yorkshire Water Services Holdings Limited | England & Wales | UK | Ordinary | 100% |
| Yorkshire Water Services Odsal Finance Holdings Limited | 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.

# *Kelda Holdings Limited*
# *Company balance sheet*

*as at 31 March 2015* *Registered Number: 99329*

| | Notes | **2015** **£m** | 2014 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 3 | **750.0** | 750.0 |
| **Creditors: amounts falling due within one year** | 4 | **(72.3)** | (70.5) |
| **Net current liabilities** | | **(72.3)** | (70.5) |
| **Total assets less current liabilities** | | **677.7** | 679.5 |
| **Net assets** | | **677.7** | 679.5 |
| **Capital and reserves** | | | |
| Called up share capital | 5 | **665.7** | 665.7 |
| Profit and loss account | 5 | **12.0** | 13.8 |
| **Total shareholders' funds** | | **677.7** | 679.5 |

The financial statements on pages 146 to 151 were approved by a duly authorised committee of the board of directors on 2 November 2015 and signed on its behalf by:

**Liz Barber**
Director
Kelda Holdings Limited

Registered Number: 99329

# *Kelda Holdings Limited*
# *Company statement of changes in equity*
*as at 31 March 2015* *Registered Number: 99329*

| | Ordinary shares £m | Preference shares £m | Accumulated losses £m | Total equity £m |
|---|---|---|---|---|
| At 1 April 2013 | - | 750.9 | 16.1 | 767.0 |
| Shares redeemed in the year | - | (85.2) | - | (85.2) |
| Profit for the year | - | - | (2.3) | (2.3) |
| At 1 April 2014 | - | 665.7 | 13.8 | 679.5 |
| Loss for the year | - | - | (1.8) | (1.8) |
| **At 31 March 2015** | **-** | **665.7** | **12.0** | **677.7** |

## 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.

In the transition to FRS 101 from old UK GAAP, the Company has made no measurement and recognition adjustments.

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:

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 April 2013 for the purposes of the transition to FRS 101.

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 loss of £1.8m (2014: £2.3m). 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 2 November 2015.

### 3. Investments

| | Shares in Group undertakings £m | Loans to Group undertakings £m | Total investments in Group undertakings £m |
|---|---|---|---|
| **Cost** | | | |
| At 31 March 2013 | 750.0 | 17.2 | 767.2 |
| Loans repaid during year | - | (17.2) | (17.2) |
| **At 31 March 2014 and 2015** | **750.0** | **-** | **750.0** |

A list of the subsidiaries of the Company can be found on pages 144 and 145. 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

| | **2015 £m** | 2014 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed to subsidiary undertakings | **72.3** | 70.2 |
| Other creditors | **-** | 0.3 |
| | **72.3** | 70.5 |

Amounts owed to subsidiary undertakings includes loans repayable on demand of £71.8m (2014: £70.0). Interest is charged at LIBOR +7.0% (2014: +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 2013 | 750.9 | 16.1 | 767.0 |
| Redemption of preference shares | (85.2) | - | (85.2) |
| Loss for the financial year | - | (2.3) | (2.3) |
| Shareholders' funds at 31 March 2014 | **665.7** | **13.8** | **679.5** |
| Loss for the financial year | **-** | **(1.8)** | **(1.8)** |
| **Shareholders' funds at 31 March 2015** | **665.7** | **12.0** | **677.7** |

## 6. Other information

The Company had no employees at 31 March 2015 (2014: 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 for the company financial statements*

## Report on the financial statements

**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 2015 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 2015; 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.

# *Independent auditors' Report to the members of Kelda Holdings Limited* *for the company financial statements*

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.

A.J Ahmad

Arif Ahmad
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
2 November 2015