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KELDA FINANCE (No. 1) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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Introduction

The principal activities of the Group are the supply of clean water and the treatment and disposal of waste water. Yorkshire Water Services Limited (Yorkshire Water or YW), the Group's regulated utility business in the UK, is responsible for both water and waste water services.

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 and the environment.

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

Our strategic objectives:

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

Our SBOs:

A trusted company

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

Safe water

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

Excellent catchments, rivers and coasts

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

Water efficient regions

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

Sustainable resources

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

Strong financial foundations

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

YW Business Strategy

Our vision is ‘taking responsibility for the water environment for good’.

As a regulated water and wastewater company, we recognise in our vision the importance of our role as a provider of some of life’s most essential services and as custodians of the natural environment and critical infrastructure. In addition, our vision captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability.

The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the sustainability of our water and waste water services and of our business.

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

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

Our Customer Outcomes:

YW Business Strategy (continued)

Working towards our six Strategic Business Objectives

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

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

Continually developing our strategy

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

Communicating progress and plans towards our strategy through this report

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

YW Business Performance

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

Our Strategic Business Objective	Our performance in 2015/16
The way we do business means our products; services and promises are trusted by all our stakeholders, now and in the future. ***Find more on pages 6-9***	Continued focus on enhancing customer service, with high levels of satisfaction on billing and water services in the SIM, and scoring well above average in the utility sector in the UK Customer Service Index (UKCSI). Focused investment in wastewater related services where we see lower levels of satisfaction, for example responding to odour problems at Saltend works by investing £16m in improvements and engaging with local customers. Further enhancements to ensure we are acting as a leading responsible business, confirmed by external benchmarking by Business in the Community (BITC).
We work safely and we protect public health by ensuring drinking water is always safe to drink and wastewater never harms customers or communities at any point in the process. ***Find more on pages 10-13***	A fatal accident and an increase in injury rates accelerated our focus on our plans for continual improvement to the health safety and wellbeing of colleagues. Extensive engagement with our people and partners reaffirmed the imperative for safety first and informed our safety improvement plan. Continued investment in assets and services ensured customers received amongst the highest standards of safety and reliability. Water supplies were maintained throughout the Christmas floods despite inundation of more than 100 of our works and pumping stations. Further reinforced and developed our approach to multi-agency collaboration to maximise flood resilience.
We maintain and improve the water environment from source to sea, and influence others to do the same. ***Find more on pages 14-16***	Delivery of our programme to protect and enhance the region's water environment continued, for example: Leading bathing water performance with 18 of Yorkshire's 20 bathing beaches achieving Good or Excellent standard; Completing our river restoration trial at Cudworth Dyke, showing early signs of enhanced biodiversity; and collaborating to deliver more fish passes across the region. To further grow the value the business and society take from our land, we worked to develop innovative partnership approaches on recreation and farm tenancy.
We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same. ***Find more on pages 16-17***	Implemented a range of activity to improve water efficiency and raise awareness of the true value of water. Our focus on managing leakage remained a priority, again out-performing our regulatory target. We continued to support customers to save water and provided water education opportunities. Engaged nationally to monitor and help shape planned changes to water resources management, including abstraction licensing and water markets.
We are efficient and effective now and in the future, with an industry-leading workforce, zero waste and a responsible supply chain. ***Find more on pages 18-21***	Continued focus on developing and supporting our people, for example taking more apprentices and graduates through our training programmes, introducing progression plans for all non-managerial roles, and ensuring we pay all our colleagues at least the Living Wage. Further developed our plans to create new value from underutilised resources, for example approving a new £70m investment in anaerobic digestion to generate more renewable energy from sewage sludge, and progressing a project to support green growth and demonstrate the circular economy in practice by using our wastewater and heat.
We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment. ***Find more on pages 22-25***	Bills were the second lowest in the water industry, kept low with a reduction in average bills. Over 27,000 customers who were struggling to pay their bill were helped through our expanded range of financial support measures. We managed financial and non-financial risks and opportunities to ensure our efficiency and effectiveness over both the short and long term. We closely managed expenditure and gearing to ensure financial prudence and to enable a fair return for investors and shareholders.

YW Business Performance (continued)

Headline indicators (previous year in brackets)	**Our priorities in 2016/17**	**Challenges and uncertainties**
82.6 points out of 100 in SIM (82.0) **77** points out of 100 in UKCSI (77) **4.5** out of 5 stars in the BITC Corporate Responsibility Index (4.5)	Drive continual improvement in customer service and engagement, especially on the wastewater side of the business. Further our performance as a responsible business, for example by trialling and developing sustainable accounting practices.	• Enhancing service faster than others in the sector • Mitigating impact of extreme weather on customer experience • Balancing a wide range of stakeholders expectations of us
34 colleague injuries resulting in lost time (29) **99.95%** compliance with drinking water quality standards (99.95) **5** serious pollution incidents (4) **1,842** internal flooding incidents (1,947)	Reinforce our health, safety and wellbeing culture, and deliver continual improvement through our safety improvement plan. Maintain our high water and wastewater services standards, meeting our Performance Commitments. Collaborate to maintain and enhance the region's flood resilience.	• Managing extensive infrastructure to maintain service and ensure safety • Achieving stretching Performance Commitments • Delivering multi-agency approaches in practice to enhance flood resilience
99.32% Discharge permit compliance (99.32%) **18** out of 20 Yorkshire bathing waters achieving Good or Excellent standard (18) **11,466Ha** of land conserved and enhanced (11,350)	Conserve and enhance the environment by delivering our investment programme and working in partnership to maximise the benefits. Find new value from our land by increasing recreation and environmental benefits.	• Delivering our large investment programmes, including innovative approaches • Delivering multi-agency approaches in practice
285Ml/d water lost through leakage (288) **12:53** (mins:secs) average water supply interruption per property (9:36) **141.7l/hd/d** average water use by customers (N/A - new)	Ensure water is used wisely, by managing our leakage and operational use of water, and by supporting others to save. Prepare for the future by starting to develop our new 25 year Water Resources Management Plan, and our strategy for developing water markets.	• Supporting and encouraging others to use water wisely • Monitoring and informing nationally developing approaches to abstraction licencing and water trading • Managing extreme weather events and the changing climate
23 hired onto our apprentice and graduate schemes (9) **11.3%** electricity needs met through renewable self-generation (12.3%) **353KTCO_2e** operational carbon emissions (369)	Further develop and support our people, including a focus on diversity and inclusion. Focus on reducing energy, carbon and waste with further progress in our commitments to the Infrastructure Carbon Review and our innovation programme to demonstrate the circular economy in practice.	• Managing our extensive, global supply chains • Mitigating volatile and rising energy and chemical costs • Transforming our approaches to ensure they are fit for the future
22,735 people received financial support to help pay their bill (N/A - new) **£248.7m** operating profit (£395.6) **77.9%** gearing (78.3%)	Continued support for those that cannot pay their bill, and debt management for those that will not pay. Ongoing focus on financial efficiency and effective risk management to ensure stable finances and a fair return.	• Managing our portfolio of derivatives • Instability in global markets • Managing income and expenditure • Cost impacts of extreme weather events

YW Business Performance (continued)

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

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

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

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

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

Ensuring reliable services today and for the future
We invest to maintain and enhance our infrastructure to ensure stable and reliable services. We monitor and report our effectiveness in this area through four ‘Stability and Reliability’ Performance Commitments. These are similar to the four Serviceability Key Performance Indicators (KPIs) under the previous regulatory reporting framework. Our trend for achieving ‘stable’ performance in all four categories has continued into 2016/17. We report more information on each of these four Performance Commitments in the relevant SBO sections of this report.

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

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

YW Business Performance (continued)

Engaging with customers and stakeholders

In 2015/16, we continued to communicate with our customers and stakeholders to inform our approach and plans, for example we:

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

Working in partnership

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

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

Supporting our community

Through our community engagement programme we provide support to a wide variety of organisations and support our colleagues in a range of community activities. We provide this support in three key areas:

- Education - raising awareness of young people and local communities on the value of water and their role and ours in safeguarding this precious resource;
- Environment - playing a key role as one of Yorkshire's largest landowners in enhancing the natural and built environment;
- Empowerment - providing opportunities for colleagues to share skills with the local community through employee-supported volunteering.

Benchmarking our approach to being a responsible business

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

YW Business Performance (continued)

Managing colleague trust

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

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

Championing diversity

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

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

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

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

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

YW Business Performance (continued)

Championing diversity (continued)

Age	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory directors	**2016**	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (33.3%)	5 (55.6%)	1 (11.1%)
	2015	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (33.3%)	5 (55.6%)	1 (11.1%)
	2014	0 (0.0%)	0 (0.0%)	2 (18.2%)	3 (27.3%)	4 (36.4%)	2 (18.2%)
Senior managers	**2016**	0 (0.0%)	1 (4.5%)	10 (45.5%)	11 (50.0%)	0 (0.0%)	0 (0.0%)
	2015	0 (0.0%)	2 (8.7%)	11 (47.8%)	10 (43.5%)	0 (0.0%)	0 (0.0%)
	2014	0 (0.0%)	1 (4.0%)	9 (36.0%)	14 (56.0%)	1 (4.0%)	0 (0.0%)
Total employees	**2016**	153 (6.2%)	595 (24.3%)	594 (24.2%)	736 (30.0%)	363 (14.8%)	10 (0.4%)
	2015	127 (5.5%)	518 (22.5%)	575 (24.9%)	720 (31.2%)	359 (15.6%)	8 (0.3%)
	2014	133 (5.7%)	556 (23.8%)	614 (26.3%)	707 (30.3%)	318 (13.6%)	5 (0.2%)

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

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

It is a fundamental policy of the Kelda Group to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found here: http://www.keldagroup.com/media/337/code-of-ethics-2011.pdf

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all direct and indirect employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and are taking further steps to enhance our assurance that controls and standards are satisfactory throughout. In compliance with the Modern Slavery Act 2015 we have published a statement on our position, this can be found at: http://www.keldagroup.com/corporate-responsibility/modern-slavery-act-transparency-statement.aspx

YW Business Performance (continued)

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

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

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

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

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

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

We have delivered good performance on the number of corrective actions relating to drinking water quality events, for example, where we might need to inform customers to boil their water before drinking it. We had five events with corrective actions in 2015/16, against a Performance Commitment for no more than six.

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

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

YW Business Performance (continued)

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

Managing flood risk
We play our part in managing and mitigating flood risk by providing an effective drainage function through our sewer network. The number of sewer flooding incidents shows an overall trend of reduction over time as we continue to invest in the network and lower the number of properties on the regulated flood risk register. However, there is annual fluctuation in the figures because flooding performance is strongly influenced by the weather.

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

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

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

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

YW Business Performance (continued)

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

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

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

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

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

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

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

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

Supporting global safe water
We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our strategic partnership with WaterAid that will deliver knowledge sharing on water and sanitation, provide infrastructure

YW Business Performance (continued)

support and much more. We have committed to raising £1m for projects that will transform lives in Ethiopia through donations from colleagues, customers, partners and the Company. We also want to go beyond fundraising and in June 2015, we sent three expert volunteers to advise and assist Ethiopia's Bishoftu water company on various aspects of water distribution and water quality.

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

YW Business Performance (continued)

Reducing pollution and enhancing river water quality

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

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

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

While delivering environmental water quality benefits, new wastewater treatment capabilities can be financially expensive and carbon intensive. In 2014/15, we made a suite of commitments to the Government's Infrastructure Carbon Review to work in partnership and use innovative solutions to protect both the atmospheric and aquatic environments. We discuss our progress against these commitments in the Sustainable Resources SBO section.

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

Investing in the region's bathing waters

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

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

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

YW Business Performance (continued)

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

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

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

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

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

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

We provide a range of recreational opportunities by providing open access to much of our estate. Users consistently report very high levels of visitor satisfaction when surveyed. In 2015, we engaged with a range of potential organisations we could partner with to help enhance the diversity of those able to take value from our land. We identified a number of

YW Business Performance (continued)

new approaches that we are now developing and investigating. Find out more about our recreational offering on our website at: http://www.yorkshirewater.com/run

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

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

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

Detailed assessments for our Water Resources Management Plan (WRMP) and Drought Plan confirm that climate change presents a growing threat to our ability to maintain the balance between supply and demand. We are well placed to manage this threat because water resources management is our most mature area of resilience and planning. We have taken advantage of the mix of water supply options in our region by developing a grid that allows us to move water around the region to where it is needed. We manage the grid to offer one of the most resilient water supply systems in the country.

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

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

Reducing the Company's own water use
We aspire to demonstrate our leadership in the efficiency of our operational use of water, especially potable water. We have taken steps to improve our operational water efficiency, for example by repairing a leaking penstock at Ruswarp Water Treatment Works to save 1Ml/d (megalitres of water per day). We have also completed audits on some of our largest wastewater treatment works to identify further improvement opportunities. Our site audits demonstrated that we need to enhance the level at which we monitor our operational water

YW Business Performance (continued)

consumption. We continue to examine and drive our performance, and are working to demonstrate our leadership by securing the Carbon Trust for Water by the end of 2017/18.

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

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

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

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

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

YW Business Performance (continued)

Attracting great people and maintaining the skills we need
Our people are critical to the success of our business and services. We recognise the need to ensure 'sustainable human resources', for example by managing our ageing workforce and developing our people with the skills needed in our increasingly technical operations. We have continued to develop and train our people, and ensure a fair reward package, through a wide range of activities, for example in 2015/16 we:

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

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

Reducing operational greenhouse gas emissions
Operational emissions are those produced through the activities we undertake to provide our services. We have reduced our operational emissions by 18.7% since 2008/09, by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Grid electricity is the largest single source of our carbon footprint, so national performance in decarbonising grid electricity has a substantial impact on our reportable emissions.

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

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

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

YW Business Performance (continued)

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

*The figures for Scope 1, 2 and 3 emissions are gross and therefore do not add up to 'Total emissions'.

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites; driving company vehicles; and releasing gasses during treatment processes.

Scope 2 emissions are those indirectly released to the atmosphere through our purchase of national grid electricity (or heat or steam) to pump and treat water and wastewater.

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

Reducing embedded greenhouse gas emissions

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

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

Managing electricity consumption and costs

Our electricity use results in about 75% of our operational emissions (discussed above) and it is one of our largest and most volatile operating costs. To keep costs low, reduce emissions, and minimise demand from the national grid we work to minimise our electricity consumption and maximise our generation of renewable energy.

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

We forecast an increase in our consumption and cost of electricity if we do not continue to act. To mitigate this risk we continue to focus on increasing our energy efficiency and our ability to generate renewable energy. Through our investments, we are working to go

YW Business Performance (continued)

beyond our Performance Commitment by generating approximately 18% of our own needs by 2020. Relevant plans include:

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

Turning waste into resource

We recognise the need to reduce waste in all its forms: monetary; physical; and time. Minimising waste is essential to help us remain efficient, reduce our environmental impact, keep bills low for customers and provide returns for investors.

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

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

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

Our sister company, KeyLand Developments, is returning large volumes of redundant waste water filter media at our Esholt works in Bradford back to good use as an aggregate, working in partnership with Thompsons of Prudhoe. By the end of 2015/16, 40,000 tonnes had been sold for reuse, of which about 25,000 tonnes was used in the construction of the new Apperley Bridge Rail Station adjacent to the Esholt site. Once the last of the material has been recovered, the large footprint of the redundant filter beds will be prepared for brownfield redevelopment. This is only the first part of our ambition to make the Esholt site one of the most sustainable in the world and an internationally leading demonstration of the circular economy in practice. The site is already almost entirely self-sufficient for its large energy needs from low carbon renewable energy generated on site, primarily from the digestion of sewage. Our vision for the site is one that supports sustainable economic growth in the region by maximising the value of currently under-utilised energy, land and water resources on the site.

Achieving our SBO ambitions throughout our supply chain

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

YW Business Performance (continued)

We will work with our supply chain to ensure security of essential supplies, continually reduce demand for depleting natural resources and to enable a cycle of social, economic and environmental improvements. We expect a similar message to be passed through the supply chain by everyone we work with. We have launched a new framework to consistently incorporate a holistic set of sustainability criteria in our procurement decisions. From September 2015 all new contracts have been required to follow our new framework, which includes for a sustainability risk assessment. This was one of six commitments we made to the government's Infrastructure Carbon Review.

Our environmental governance and policy

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

YW Business Performance (continued)

Managing our financial performance

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

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

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

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

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

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

Gearing at Yorkshire Water was 78.0% on 31 March 2016 (2015: 78.3%). We are targeting gearing at approximately 80.0% (subject to inflation) by 2020. This approach will maintain the strength of the Company's balance sheet and also gives us flexibility to manage the impact of any significant unforeseen events.

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

Governing our capital and operational investment programmes

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

The extensive flooding over the Christmas period of 2015 has caused significant damage to our assets, although we worked hard to ensure there was no interruption to customers' water supplies during the extreme weather event. We have instigated a major recovery programme and expect the total cost to run into the tens of millions on our assets. We continue to value the cost of repairs and are working with our insurers to recover these

YW Business Performance (continued)

costs. As a consequence of this and other recent claims, we have seen an increase in our insurance premiums and excess.
As with previous investment periods, if we are unable to deliver our capital investment programme at expected expenditure levels, are unable to secure the expected level of efficiency savings, or the programme falls behind schedule, profitability might suffer because of a need for increased operating expenditure. Ofwat may also factor such failure into future price reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. Our ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10% of turnover or other sanctions.

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

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

We use a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance our operations. Any funding required is raised by the Group treasury department in the name of the appropriate company, operating within the debt covenants. Subject to the restrictions required by the Whole Business Securitisation (explained below), funds raised may be lent to or from the Company at commercial rates of interest. Cash surplus to operating requirements is invested in short term instruments with institutions having a long term rating of at least A-/A-/A3 and a short term rating of at least A1/F1/P1 issued by Standard and Poor's, Fitch and Moody's respectively.

During the year we successfully put plans in place to refinance the £450m Class B debt which is callable in April 2017, with £190m refinanced during March 2016 through our financing company and by also entering into bank and institutional facilities totalling £260m at the Class B level which are planned to be drawn close to the April 2017 call date.

Total borrowings, including amounts owed to group companies, was £4,584.7m as at 31 March 2016 (31 March 2015: £4,591.6m). Net debt, excluding amounts owed from group companies and cash in hand and at the bank, was £3,551.7 on 31 March 2016 (2015: £3,547.4m). The maturity profile of the Company's borrowings is set out in note 19.

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

YW Business Performance (continued)

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

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

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

We are exposed to commodity price risk, especially energy price risk, as a result of our operations. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. During the year we took the opportunity in this period of low energy prices to fix our energy costs to 2020.

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

Managing our credit ratings

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

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

YW Business Performance (continued)

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

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

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

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

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

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in price limits for a proportion of debt deemed to be irrecoverable. To help minimise bad debt we operate a range of schemes designed to help customers who genuinely cannot afford to pay their bills while having strong processes in place for overall debt collection. One of our new Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill.

We have extended our portfolio of assistance packages by fully implementing our new 'social tariff' support scheme, Water Support, in 2015/16. This followed a successful trial the previous year. Water Support is aimed at customers whose household income is assessed as being 'low' and have a bill over a set threshold (£410 in 2015/16). Under the scheme the customer's bill can then be capped at the cost of the average Yorkshire Water bill (£360 in 2015/16). Through our range of support packages we helped 22,735 of our customers struggling to pay their bill in 2015/16, and we aim to increase this further in the coming years. Our team leading this work were recognised as Vulnerable Support Team of the Year at the national Credit Today Utility and Telecoms Awards.

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

Financial Performance

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

Key financial performance indicators

	Year ended 31 March 2016	Year ended 31 March 2015
	£m	£m
Operating profit from continuing operations (before exceptional items)	**265.0**	396.3
EBITDA before exceptional items (note 3)	**539.5**	617.7

Operating profit is disclosed in the Group income statement on page 40.

Results for the year

The result for the year shows an operating profit, before exceptional items, from continuing operations of £265.0m (2015: £396.3m), which is principally generated by Yorkshire Water's regulated water business. In the year there has been an exceptional item that is as a result of the flooding that occurred in December 2015. Further details are provided below.

Exceptional items for the year

Exceptional items comprise:

	2016	2015
	£m	£m
Included in operating costs		
Exceptional items resulting from flooding	**(26.5)**	-
Included in finance income		
Movement of fair value of index linked swaps	**129.1**	-
Movement of fair value of finance lease interest rate swaps		-
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**-**	4.2
Movement of fair value of fixed to floating interest rate swaps and associated Bonds	**8.0**	4.8
	133.4	9.0
Included in finance costs		
Movement of fair value of index linked swaps	**-**	(369.9)
Movement of fair value of finance lease interest rate swaps	**(0.7)**	(8.6)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(3.7)**	-
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**-**	-
	(4.4)	(378.5)

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

Financial Performance (continued)

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in the retail price index (RPI) by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2016 resulted in a £1,734.3m provision (2015: £1,858.3m).

Of the year on year movement of £124.1m, a charge of £21.8m (2015: £61.6m) relating to RPI accretion has been recognised within finance costs, an income of £129.1m (2015: £369.9m charge) has been recognised as an exceptional finance income and the net remaining amount of £16.7m (2015: £19.6m) 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 2016 resulted in a £24.9m liability (2015: £24.2m). The year on year increase of the liability of £0.7m (2015: £8.6m increase) 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 6.

Exceptional finance costs include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2016. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £3.7m charge (2015: £4.2m credit) to the income statement.

Exceptional finance costs 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 2016. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £8.0m credit (2015: £4.8m credit) to the income statement.

Accounting policies

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

Revaluation of property, plant and equipment

The Group’s infrastructure assets are carried at valuation. The directors reviewed the valuation of infrastructure assets at 31 March 2016 and concluded the carrying value of the assets are in line with fair value. At 31 March 2015 this review resulted in a net revaluation surplus of £187.1m after deferred tax.

Risk Analysis - Principal risks

↓ Decreased risk ↑ Increased risk → No change to risk

	Principal risk	Change in year	Risk to SBOs	Treatment plans: Cross Business	Treatment plans: Bespoke
1	**Failure to protect colleagues and the public from harm** We play a critical role in protecting the safety, health and wellbeing of our customers, colleagues and contract partners.	→		• Forecasting and long term planning • Business planning • Emergency response and escalation • Regulatory monitoring and reporting • Day-to-day management controls, including 24/7 Service Delivery Centre • ISO certified integrated management systems • Dynamic risk management culture and systems • Internal audit and external assurance • Internal monitoring and measurement • Stakeholder engagement and influencing • Customer insight and feedback • Training and development • In-house and partner expertise and experience • Maintenance and enhancement investment programmes • Governance and assurance processes	• Occupational Health and Safety Management System • Health and safety improvement programme • Board Safety, Health and Environment Committee (SHE)
2	**Failure to deliver enough clean, safe drinking water** We supply an average of 1.3 billion litres of water to Yorkshire consumers each day. It is imperative that this remains a safe, high quality and reliable service.	→			• Flexible grid network • Water Resources Allocation Planning (WRAP) • Drinking Water Safety Planning • Investment in water efficiency and leakage
3	**Failure to respond to external threats and opportunities** We need to ensure we are fit for the future and able to deal with the impacts of population growth, climate change and extreme weather conditions. We also need to manage various threats (malicious or accidental) our resources, assets and infrastructure are exposed to and which could impact the provision of our essential services.	↑			• Long term planning, eg climate change strategy and Water Resources Management Plan • Investment programmes in water efficiency, flood risk management, and energy efficiency and renewables • Innovation programme preparing for future challenges • Insurance • Collaboration, for example with Local Resilience Forum and national security bodies
4	**Failure to manage waste water** We must effectively maintain and operate our sewer network and waste water treatment works to ensure a healthy environment, avoid pollution and play our part in managing flood risk.	→			• ISO certified Water and Environmental Management Systems • Investment programmes in waste water treatment, networks and bathing waters • Pollution incident reduction plan
5	**Failure to deliver our customer promise and outcomes for stakeholders** We know, through consultation, what our customers and key stakeholders expect of us. We must deliver our commitments to ensure our regulatory compliance, reputation and our licence to operate.	→			• Customer and stakeholder consultation and engagement, informing our Price Review plan and local activities • Transparent reporting • Customer support services and investment programme
6	**Failure to comply with legal and regulatory requirements** We are highly regulated and non-compliance presents the risk of fines, enforcement action, and increased scrutiny and ultimately licence revocation. Currently operating within a competitive market.	→			• ISO certified integrated management systems • Controls and Risk Self-Assessment process • Preparing for increasing competition in the water industry
7	**Failure to achieve financial sustainability** We manage a variety of financial risks that include the effects of changes to debt market prices, interest rates, revenue and competition. Predictable and transparent regulation is key to maintaining credit ratings, and attract investment. The Western economy is still recovering from economic downturn.	→			• Blueprint business plan • Financial governance of all expenditure and costs, including Board Investment Committee • Supporting customer affordability and managing customer debt • Innovation programme preparing for future challenges
8	**Failure to execute and deliver strategy, systems, data and process** We must effectively execute essential strategies, systems and processes to avoid compromising our ability to operate efficiently and effectively, including our ability to make appropriate decisions and meet targets.	↑			• Blueprint business plan • IT and data control frameworks and investment • Short, medium and long term strategy and planning processes • Partnership working
9	**Failure to protect and manage our impact on the environment** We safely abstract and discharge to the water environment and manage substantial land holdings and emissions to the atmosphere, all aspects of our continual interaction with the natural environment.	→			• ISO certified Environmental and Quality Management Systems • Land, coast and river management programmes • Investment programmes in water efficiency, waste water collection and treatment, and energy efficiency and renewables

YW Business Performance (continued)

The Strategic Report was approved by the board of directors on 19 July 2016 and signed on its behalf by:

Liz Barber
Director of Finance, Regulation & Markets
19 July 2016

Directors' Report

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

Financial results for the year

The profit for the year was £225.6m (2015: £105.5m loss). Kelda Finance (No. 1) Limited (the Company) paid £74.7m (2015: £78.4m) of cash dividends. Further comments on the financial performance can be found in the strategic report on page 26 to 27.

Incorporation

Kelda Finance (No. 1) Limited was incorporated on 11 May 2012 in England and Wales. On 24 June 2012, Kelda Finance (No. 2) Limited, a wholly owned subsidiary of Kelda Finance (No. 1) Limited, acquired the Yorkshire Water Services Holdings Limited group of companies in exchange for shares issued to Kelda Group Limited.

Principal activities

The principal activities of the Group are the supply of clean water and the treatment and disposal of waste water. Yorkshire Water Services Limited (Yorkshire Water or YW), the Group's regulated utility business in the UK, is responsible for both water and waste water services.

The principal activity of the Company is to be a holding company within the Kelda Holdings Limited group, and is expected to continue to be so for the foreseeable future.

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 forward-looking statements and a description of the principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 1 to 29.

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

Directors

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

Elizabeth (Liz) Barber
Richard Flint
Chantal Forrest

The Company had directors' and officers' liability insurance in place throughout the financial year and up to the date of approval of the financial statements. By virtue of the articles of association, the Company had also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

The details of the directors serving at the year end are shown below.

Richard Flint
Richard was appointed Chief Executive of Kelda Group and Yorkshire Water Services Ltd in April 2010. Prior to that he was the Chief Operating Officer of Yorkshire Water (2008-2010) and Director of the Company's Water Business Unit (2003-2008). He is Chairman of Kelda Water Services, Keyland Developments, a trustee of the international charity WaterAid, a Board member of the water industry trade body Water UK and Chairman of the Business in the Community Yorkshire & the Humber Advisory Board.

Elizabeth (Liz) Barber
Appointed to the board 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.

Chantal Forrest
Appointed to the board on 31 December 2014. Chantal joined Yorkshire Water on 1 December 2014 as Group Company Secretary. She was previously Company Secretary and General Counsel at Electricity North West.

Research and development

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

Valuation of assets

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

Certain classes of the company's tangible fixed assets, infrastructure assets, are held at valuation as detailed in note10 to the statutory financial statements. As a result of the valuation carried out at 31 March 2015 the carrying value of the infrastructure assets was increased by £364m and the resulting revaluation surplus taken to the revaluation reserve. The directors reviewed the carrying value of these assets at 31 March 2016 and concluded them to be in line with fair value.

Certain classes of the Company's land and buildings are also held at valuation, based on existing use, valued by independent qualified valuers in March 2014.

The assets subject to a policy of revaluation will continue to be revalued on a periodic basis.

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

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.

On pages 8 and 9 is an overview of YW's diversity statistics as it was on 31 March 2016 and 31 March 2015.

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 continue to deliver a programme of improvements to our system and practices.

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

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

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

Group understands and learns from its business risks, performance, incidents, injuries, inspections and audits.

Political donations

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

As part of its stakeholder engagement programme the Group incurred expenditure of £1,700 (2015: £2,500) in such activities.

Independent auditors

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

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

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

Financial instruments

Details are provided in note 19 of the financial statements.

Future developments

Future events are dealt with in the Strategic Report on pages 1 to 29.

Annual general meeting

Kelda Finance (No. 1) Limited has dispensed with the requirement to hold an annual general meeting.

Going concern

After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has £809.4m (2015: £825.4m) of undrawn committed borrowing facilities (note 13) 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.

Disclosure of information to auditors

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

- The financial statements give a true and fair view of the assets, liabilities, financial position and loss of the Group: and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As it is entitled to do by the Companies Act 2006, the board has chosen to set out in the Strategic Report the following matters required to be disclosed in the Directors' Report in respect of the year ended 31 March 2016;

(a) the use of financial instruments;
(b) particulars of any important events affecting the Company which have occurred since the end of the financial year;
(c) an indication of likely future developments in the business of the Company;
(d) an indication of the activities of the company in the field of research and development; and
(e) a breakdown of the Company's greenhouse gas emissions.

On behalf of the board

Chantal Forrest

Director
19 July 2016

Registered address: Western House, Halifax Road, Bradford, BD6 2SZ

Corporate governance Report

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

Kelda Finance (No. 1) Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to the Kelda Holdings Limited group is detailed in the Annual Report and Financial Statements of that company, a copy of which is available from the company secretary.

The board of directors

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

At the end of the year, the Board comprised three directors.

Liz Barber
Richard Flint
Chantal Forrest

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 an appropriate level through the risk register hierarchy and have stated controls, owners and action plans where necessary. There is clear allocation of management responsibility for risk identification, recording, analysis and control;
- Risk assessment is completed with the 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 treatment plans in place. All movements in strategic risk position are reported to the executive management team known as Kelda Management Team (KMT) monthly;
- KMT meet quarterly to review the Group'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 Board Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf of the board. Anthony Rabin as the chairman of the Group Audit Committee reports to the Kelda Holdings Limited board;
- Business units are required to report annually on principal business risks and the operation of control mechanisms; and
- 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 Group Audit Committee reviewed the effectiveness of the risk management process, the effectiveness of internal audit and the effectiveness of the external audit process on behalf of the Group. The Committee has also separately considered the control environment and control activities which the Board can rely on for disclosures in the Annual Report.

In addition to the process outlined above, the Group is also subject to: independent external audits which were reported to the executive team and the Audit Committee; 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 directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2016. The Directors' Report should be read in conjunction with the Strategic Report.

Kelda Finance (No. 1) Limited
Group income statement
for the year ended 31 March 2016

	Note	**2016** **£m**	2015 £m
Revenue		**973.9**	1,006.1
Operating costs before exceptional costs	3	**(708.9)**	(609.8)
Exceptional items	4	**(26.5)**	-
Total operating costs		**(735.4)**	(609.8)
Operating profit		**238.5**	396.3
Finance income before exceptional items	6	**85.6**	85.1
Exceptional finance income	4	**137.1**	9.0
Total finance income		**222.7**	94.1
Finance costs before exceptional items	6	**(272.5)**	(294.0)
Exceptional finance costs	4	**(4.4)**	(378.5)
Total finance costs		**(276.9)**	(672.5)
Profit/(loss) from continuing operations before taxation		**184.3**	(182.1)
Tax credit	7	**41.3**	76.6
Profit/(loss) attributable to owners of the parent for the year		**225.6**	(105.5)

All material activities in the current year and prior year relate to continuing operations. Group revenue is derived principally from UK regulated water services.

Kelda Finance (No. 1) Limited
Group statement of comprehensive income
for the year ended 31 March 2016

	Note	**2016 £m**	2015 £m
Profit /(loss)for the year		**225.6**	(105.5)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gains on revaluation:			
Gains on revaluation of infrastructure assets before taxation	10	**-**	234.6
Taxation	7	**5.0**	(46.8)
Other comprehensive income for the year, net of tax		**5.0**	187.8
Total comprehensive income for the year		**230.6**	82.3

Kelda Finance (No. 1) Limited
Group balance sheet
as at 31 March 2016

	Note	**2016** £m	2015 £m
Non-current assets			
Intangible assets	9	**40.3**	14.2
Property, plant and equipment	10	**6,871.2**	6,782.1
Derivative financial assets	19	**90.8**	67.8
Trade and other receivables	12	**1,248.8**	1,256.9
		8,251.1	8,121.0
Current assets			
Inventories	11	**2.0**	1.3
Trade and other receivables	12	**193.8**	188.3
Tax assets		**2.5**	5.0
Cash and cash equivalents	13	**25.8**	37.0
		224.1	231.6
Total assets		**8,475.2**	8,352.6
Current liabilities			
Trade and other payables	14	**(650.7)**	(493.4)
Borrowings	13	**(161.9)**	(140.1)
Deferred grants and contributions on depreciated assets		**(2.7)**	(2.8)
		(815.3)	(636.3)
Non-current liabilities			
Borrowings	13	**(4,650.5)**	(4,678.7)
Trade and other payables	14	**(15.5)**	(31.4)
Financial liabilities	19	**(1,619.8)**	(1,739.3)
Deferred grants and contributions on depreciated assets		**(46.3)**	(48.9)
Provisions for other liabilities and charges	15	**(0.7)**	(0.7)
Deferred income tax liabilities	16	**(443.2)**	(489.7)
		(6,776.0)	(6,988.7)
Total liabilities		**(7,591.3)**	(7,625.0)
Net assets		**883.9**	727.6
Equity attributable to owners of the parent			
Ordinary shares	18	**-**	-
Hedging reserve		**(13.2)**	(13.2)
Revaluation reserve		**206.4**	201.6
Retained earnings		**690.7**	539.2
Total equity		**883.9**	727.6

The financial statements on pages 40 to 88 were approved by the board of directors on 19 July 2016 and signed on their behalf by:

Liz Barber
Director

Registered Number: 08066326

Kelda Finance (No. 1) Limited
Group statement of changes in equity
for the year ended 31 March 2016

	Note	*Ordinary shares* **£m**	*Hedging reserve* **£m**	*Revaluation reserve* **£m**	*Retained earnings* **£m**	*Total equity* **£m**
At 1 April 2014		-	(13.2)	13.8	723.6	724.2
Loss for the year		-	-	-	(105.5)	(105.5)
Dividends paid	8	-	-	-	(78.4)	(78.4)
Other movements		-	-	-	(0.5)	(0.5)
Total included in the Group statement of comprehensive income		-	-	187.8	-	187.8
At 1 April 2015		-	(13.2)	201.6	539.2	727.6
Profit for the year		-	-	-	225.6	225.6
Dividends paid	88	-	-	-	(74.7)	(74.7)
Revaluation of infrastructure assets		-	-	(0.2)	-	(0.2)
Other movements		-	-	-	0.6	0.6
Total included in the Group statement of comprehensive income		-	-	5.0	-	5.0
At 31 March 2016		**-**	**(13.2)**	**206.4**	**690.7**	**883.9**

Kelda Finance (No. 1) Limited
Group cashflow statement
for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities	21	**543.1**	623.3
Income taxes received		**3.0**	17.5
Interest paid		**(269.0)**	(255.6)
Net cash generated from operating activities		**277.1**	385.2
Cash flows from investing activities			
Interest received		**84.9**	84.3
Proceeds on disposals of property, plant and equipment		**4.3**	1.4
Purchases of property, plant and equipment		**(255.5)**	(268.4)
Capital grants and contributions		**17.1**	21.2
Net cash used in investing activities		**(149.2)**	(161.5)
Cash flows from financing activities			
Dividends paid	8	**(74.7)**	(78.4)
Borrowings raised (net of fees)		**-**	89.7
Repayments of borrowings		**(30.3)**	(199.3)
Repayment of obligations under finance leases and hire purchase agreements		**(34.1)**	(28.9)
Net cash used in financing activities		**(139.1)**	(216.9)
Net (decrease)/ increase in cash and cash equivalents		**(11.2)**	6.8
Cash and cash equivalents at the beginning of the year		**37.0**	30.2
Cash and cash equivalents at the end of the year	13	**25.8**	37.0

Notes to the Group financial statements

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2016 were authorised for issue by the board of directors on 19 July 2016 and were signed on the board's behalf by Chantal Forrest, Company Secretary and Director. Kelda Finance (No. 1) Limited is a limited company incorporated and domiciled in England and Wales.

2. Accounting policies

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

Basis of accounting
The consolidated financial statements of Kelda Finance (No. 1) Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the Group for the year ended 31 March 2016.

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

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 52 and 53.

Basis of consolidation
The Group financial statements consolidate the financial statements of Kelda Finance (No. 1) Limited and its subsidiaries. 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 predecessor accounting principles. 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.

On 24 June 2012 the Group acquired the Yorkshire Water Services Holdings Limited group of companies in exchange for shares issued to Kelda Group Limited. The Group applied predecessor accounting principles to the initial consolidation of its results to 31 March 2013, incorporating assets and liabilities upon acquisition at their existing book values in the financial statements of the entities under common control. Business combinations under common control are accounted for in the consolidated financial statements prospectively from the date the Group obtained the ownership interest. The Group has maintained the reserves structure of the companies acquired.

2. Accounting policies (continued)

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 period and monetary assets and liabilities are dealt with in the income statement.

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 period, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the period 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 ongoing 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 that 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 approval of the dividend.

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

Research and development expenditure
Research expenditure is written off in the income statement in the period in which it is incurred.

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

2. Accounting policies (continued)

Taxation
Current tax
Current tax for the current period is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current period exceeds the amount payable, the excess is recognised as an asset.

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

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

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

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

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

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

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

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

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

2. Accounting policies (continued)

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.

Property, plant and equipment
Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets are also held at valuation (see note 10). 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:

Land and buildings	
Buildings	25 - 100 years
Residential properties, non-specialised properties	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 in Yorkshire Water on transition to IFRS was calculated with reference to the estimated fair value of the infrastructure network as a whole at 1 April 2004. Subsequent expenditure is classified as operating expenditure or capital and accounted for appropriately.

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

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’.

2. Accounting policies (continued)

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/period are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

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

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.

2. Accounting policies (continued)

Provisions
Provision is made for self insured claims incurred but not reported and other known liabilities which exist at the period end as a result of a past event.

Financial instruments
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 a legal right and intention to offset.

Trade and other receivables
Trade receivables are initially recognised at fair value, and subsequently remeasured at amortised cost, net of any allowance for impairment.

Invoices for unmeasured water charges are due on predetermined dates, irrespective of date of receipt. Other trade receivables generally have 7-30 day payment terms. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

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

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

(i) amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs; or

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

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

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

2. Accounting policies (continued)

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

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

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

Employee benefits

(a) Pension plans
The Group accounts for its pensions in accordance with IAS 19 (revised) ‘Employee Benefits’.

(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 period in which they arise.

(ii) Defined benefit scheme
A majority of the Group’s employees participate in the Kelda Group Pension Plan (KGPP), a group defined benefit pension scheme as described in note 17 of the financial statements. The KGPP is a Group defined benefit plan such that the risks are shared between various entities under the control of the Kelda Holdings Limited Group of companies. As there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 ‘Revised’ to individual Group entities, the Kelda Finance (No. 1) Limited Group recognises a cost equal to its contribution payable for each accounting period.

Share capital
Ordinary shares are classified as equity.

2. Accounting policies (continued)

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 a single business segment, being that of UK Regulated Water Services (Yorkshire Water).

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.

The Group estimates the fair value as the price it would receive to sell an asset or pay to transfer a liability in an orderly transaction, between the market participants.

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

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

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

Principal areas of judgement

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

- Fair value of financial instruments

The Group's accounting policy for financial instruments is detailed on pages 50 and 51. 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 £26.0m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £53.0m higher or lower were the credit curve assumption to change by 10 basis points

2. Accounting policies (continued)

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on page 48 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 2016 current trade receivables were £116.6m (2015: £120.0m) before provision for impairments.

New standards and interpretations

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

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

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

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

2. Accounting policies (continued)

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

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

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

3. Operating costs before exceptional costs

	2016	2015
	£m	£m
Own work capitalised	**(34.6)**	(36.1)
Raw materials and consumables	**28.5**	29.0
Other external charges	**296.1**	278.8
Staff costs (note 5)	**118.8**	107.0
Depreciation of property, plant and equipment (note 10)		
On owned assets		
- UK infrastructure	**71.8**	36.3
- other assets	**192.7**	179.2
On assets held under finance lease		
- UK infrastructure	**1.4**	1.4
- other assets	**7.1**	7.3
Operating lease rentals - minimum lease payments		
- plant and equipment	**2.0**	1.9
- other	**1.7**	1.5
Amortisation of grants and contributions	**(2.9)**	(2.8)
Amortisation of software (note 9)	**4.4**	-
Movement of fair value of energy contracts (note 19)	**9.9**	(6.4)
Impairment of trade receivables	**18.8**	19.9
Profit on disposal of property, plant and equipment	**(1.6)**	(2.2)
Other operating income	**(5.2)**	(5.0)
	708.9	609.8

3. Operating costs before exceptional costs (continued)

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 26, is calculated as follows:

	2016	2015
	£m	£m
Group operating profit	**238.5**	396.3
Add back exceptional items	**26.5**	-
Add back depreciation and amortisation of capital grants (as above)	**270.1**	221.4
Add back amortisation of software (as above)	**4.4**	-
EBITDA before exceptional items	**539.5**	617.7

Auditors' remuneration

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

	2016	2015
	£m	£m
Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements	**-**	-
Fees payable to the Group's auditors for other services:		
- The audit of the Company's subsidiaries pursuant to legislation	**0.2**	0.2
- Fees for other services	**-**	-
	0.2	0.2

4. Exceptional items

Exceptional items comprise:

	2016	2015
	£m	£m
Included in operating costs		
Insurance payment	**10.0**	-
Impairment of assets resulting from flooding	**(35.0)**	-
Operating costs	**(1.5)**	-
Total Exceptional item resulting from flooding	**(26.5)**	
Included in finance income		
Movement of fair value of index linked swaps	**129.1**	-
Movement of fair value of finance lease interest rate swaps	-	-
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**-**	4.2
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**8.0**	4.8
	137.1	9.0
Included in finance costs		
Movement of fair value of index linked swaps	**-**	(369.9)
Movement of fair value of finance lease interest rate swaps	**(4.4)**	(8.6)
	(4.4)	(378.5)

4. Exceptional items (continued)

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

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Group during 2007/08. These swaps hedge against movements in the retail price index (RPI) by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2016 resulted in a £1,734.3m provision (2015: £1,858.3m).

Of the year on year movement of £124.0m, a charge of £21.8m (2015: £61.6m) relating to RPI accretion has been recognised within finance costs, an income of £129.1m (2015: £369.9m charge) has been recognised as an exceptional finance income and the net remaining amount of £16.7m (2015: £19.6m) 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 2016 resulted in a £24.9m liability (2015: £24.2m). The year on year increase of the liability of £0.7m (2015: £8.6m increase) 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 6.

Exceptional finance costs include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2016. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £3.7m charge (2015: £4.2m credit) to the income statement.

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

5. Directors and employees

Average monthly number of people employed by the Group	**2016 Number**	2015 Number
UK regulated water services	**2,323**	2,309

	2016 £m	2015 £m
Total employment costs:		
Wages and salaries	**78.6**	75.5
Social security costs	**7.4**	7.2
Other pension costs	**32.8**	24.3
	118.8	107.0

Directors' emoluments

	2016 £m	2015 £m
Aggregate emoluments	**2.0**	1.6
Employer contributions to money purchase pension schemes	**-**	-
	2.0	1.6

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

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

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

During the year, one (2015: two) director was a contributory member of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2015/16 was £0.2m (2015: £0.2m).

6. Finance income and finance costs before exceptional items

	Year ended 31 March 2016 £m	Year ended 31 March 2015 £m
Finance income		
Interest receivable on bank deposits	**0.2**	1.4
Interest receivable from index linked swaps	**9.3**	8.6
Interest receivable from cross currency interest rate swaps	**13.2**	12.7
Interest receivable on loans to Group companies	**62.9**	62.4
Finance income before exceptional income	**85.6**	85.1
Exceptional finance income (note 4)	**133.4**	9.0
Total finance income	**219.0**	94.1
Finance costs		
Interest payable on guaranteed bonds	**179.6**	179.6
Interest payable on US Dollar bonds	**11.4**	11.5
Interest payable on AUS Dollar bonds	**2.0**	2.0
Amortisation of issue costs in respect of bonds	**1.2**	1.1
Finance costs for bonds	**194.2**	194.2
Bank loans and overdrafts	**11.3**	13.4
Bank loans under Kelda Finance facility	**3.0**	3.0
RPI accretion on index linked swaps	**21.8**	61.6
Interest payable on index linked swaps	**40.5**	40.4
Finance leases	**6.3**	6.7
Commitment fees and miscellaneous interest	**8.4**	5.5
Finance costs before capitalisation of interest	**285.5**	324.8
Interest capitalised	**(13.0)**	(30.8)
Finance costs net of interest capitalised	**272.5**	294.0
Exceptional finance costs (note 4)	**0.7**	378.5
Total finance cost	**273.2**	672.5

For more information on guaranteed and US Dollar bonds refer to note 13. For details of exceptional finance costs see note 4.

7. Tax credit

	2016 £m	2015 £m
Current tax		
UK corporation tax at 20% (2015: 21%)	**0.2**	0.3
Adjustments in respect of prior periods	**-**	(26.5)
Total current tax from continuing operations	**0.2**	(26.2)
Deferred tax		
UK charge/(credit) for temporary differences arising and reversing in the year	**2.4**	(63.9)
Effect of change in tax rates	**(42.2)**	3.0
Adjustments in respect of prior periods	**(1.7)**	10.5
Total deferred tax from continuing activities (note 16)	**(41.5)**	(50.4)
Total tax credit on profit/(loss) from ordinary activities	**(41.3)**	(76.6)

Tax relating to items credited to other comprehensive income		
Deferred tax:		
Fair value adjustment of infrastructure assets	**(4.7)**	46.8
Revaluation of other fixed assets	**(0.3)**	-
Tax (credit)/charge in the Group statement of comprehensive income	**(5.0)**	46.8

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

	2016 £m	2015 £m
Profit /(loss) from continuing operations before taxation	**184.3**	(182.1)
Current and deferred tax on Group profit/(loss) on ordinary activities at the standard UK tax rate	**36.9**	(38.3)
Effects of:		
Expenses not deductible for tax purposes	**1.4**	4.3
Income not taxable	**(1.2)**	(2.2)
Change in tax rate	**(42.2)**	3.0
Adjustments in respect of prior periods	**(1.7)**	(16.0)
Group relief received free of charge	**(34.5)**	(27.4)
Group current and deferred tax credit for the year	**(41.3)**	(76.6)

The corporation tax rate of 20% enacted in the Finance Act 2013 and applicable from 1 April 2015 has been used in preparing these financial statements. The Finance (No 2) Act 2015 set the main rate of corporation tax rate at 19% from 1 April 2017 and 18% from 1 April 2020. These rates were substantively enacted on 25 October 2015 and the deferred tax liability at 31 March 2016 has been calculated based on these rates. The Chancellor announced in the Budget on 16 March 2016 that the main rate of corporation tax will be reduced to 17% from 1 April 2020. This had not been substantively enacted at the balance sheet date and therefore is not included in these financial statements.
The overall effect of that change, if it had been applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £24.6m and increase the tax credit by the same amount.

7. Tax credit (continued)

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

	2016 £m	2015 £m
Accelerated depreciation for tax purposes	**(67.8)**	(33.4)
Fair value adjustment of infrastructure assets	**(30.5)**	55.5
Financial instruments	**56.9**	(72.5)
Rollover relief	**(0.1)**	-
Deferred tax credit	**(41.5)**	(50.4)

8. Dividends

	2016 £m	2015 £m
Total dividends	**74.7**	78.4

During the year, dividends of £74.7m, £0.74m per share (2015: £78.4m, £0.75m per share), were declared and cash settled.

9. Intangible assets

	Software £m	Goodwill £m	Total £m
Cost or valuation			
At 1 April 2015	-	14.2	14.2
Reclassification from tangible fixed assets	21.5	-	21.5
Additions during year at cost	9.5	-	9.5
At 31 March 2016	**31.0**	**14.2**	**45.2**
Accumulated amortisation			
At 1 April 2015	-	-	-
Reclassification from tangible fixed assets	0.5	-	0.5
Charge for the year	4.4	-	4.4
At 31 March 2016	**4.9**	**-**	**4.9**
Net book amount at 31 March 2016	**26.1**	**14.2**	**40.3**
Net book amount at 31 March 2015	-	14.2	14.2

Goodwill arose on the transfer into Yorkshire Water of the trade and net assets of The York WaterWorks Limited on 1 April 2000. The directors do not believe this should be impaired as it relates to assets which are still in continuing use within the business.

10. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2015	1,796.3	3,801.6	3,094.5	281.4	8,973.8
Additions at cost	3.2	2.9	20.5	254.8	281.4
Grants and contributions	-	-	-	(17.4)	(17.4)
Transfers on commissioning	84.0	84.0	160.1	(328.1)	0.0
Reclassifications	-	157.2	-	10.8	168.0
Disposals	(4.1)	-	(42.6)	-	(46.7)
At 31 March 2016	**1,879.4**	**4,045.7**	**3,232.5**	**201.5**	**9,359.1**
Accumulated depreciation					
At 1 April 2015	470.1	-	1,721.6	-	2,191.7
Reclassifications	-	32.2	-	-	32.2
Charge for the year	33.0	73.2	166.8	-	273.0
Impairment	-	-	35.0	-	35.0
Disposals	(3.0)	-	(41.0)	-	(44.0)
At 31 March 2016	**500.1**	**105.4**	**1,882.4**	**-**	**2,487.9**
Net book amount at 31 March 2016	**1,379.3**	**3,940.3**	**1,350.1**	**201.5**	**6,871.2**

During the year the Group capitalised borrowing costs amounting to £13.0m (2015: £30.8m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.92% (2015: 3.94%). Software development costs with a carrying value of £21.0m were reclassified to intangible assets during the year. Deferred income from infrastructure connection charges, previously presented net within fixed assets, of £156.8m, were reclassified as deferred income.

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2014	1,733.1	3,553.6	2,954.7	436.9	8,678.3
Additions at cost	-	14.7	19.2	285.7	319.6
Grants and contributions	-	-	-	(18.4)	(18.4)
Transfers on commissioning	75.5	159.0	188.3	(422.8)	-
Revaluation	-	74.3	-	-	74.3
Disposals	(12.3)	-	(67.7)	-	(80.0)
At 31 March 2015	1,796.3	3,801.6	3,094.5	281.4	8,973.8
Accumulated depreciation					
At 1 April 2014	447.1	122.6	1636.8	-	2,206.5
Revaluation	-	(160.3)	-	-	(160.3)
Charge for the year	34.2	37.7	152.3	-	224.2
Disposals	(11.2)	-	(67.5)	-	(78.7)
At 31 March 2015	470.1	-	1,721.6	-	2,191.7
Net book amount at 31 March 2015	1,326.2	3,801.6	1,372.9	281.4	6,782.1

10. 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	181.4	**361.3**
Accumulated depreciation	(38.8)	(28.5)	(144.0)	**(211.3)**
Net book amount at 31 March 2016	**69.8**	**42.8**	**37.4**	**150.0**
Net book amount at 31 March 2015	71.5	44.2	42.8	158.5

The Group's infrastructure assets were valued at 31 March 2015. These valuations were performed in accordance with IAS 16 'Property, Plant and Equipment' 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.

Such valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. This resulted in an increase in the valuation, before tax of £234.6m. At the year end, management carried out a review of the carrying value of infrastructure assets compared to fair value and concluded that they are materially correct, therefore no revaluation adjustment was recognised in the current 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

10. 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 calculations carried out at 31 March 2014 have been reviewed at 31 March 2016 by the directors, who concluded that current book values are not materially different to current market values.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,865.8m (2015: £3,573.3m).

Categories of assets revalued are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	3,940.3	2,510.9
Non-specialist properties	17.6	14.7
Rural estates	58.1	0.6
Residential properties	2.4	-
Net book amount of asset revalued	**4,018.4**	**2,526.2**

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

	Revalued amount £m	Historical cost basis £m
31 March 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
Disposal of revalued assets	(1.3)	-
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2016	**78.1**	**15.3**

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

	Revalued amount £m	Historical cost basis £m
Cost	4,045.7	3,837.3
Aggregate depreciation	(105.4)	(1,326.4)
31 March 2016	**3,940.3**	**2,510.9**

11. Inventories

	2016	2015
	£m	£m
Raw materials and consumables	**2.0**	1.3

12. Trade and other receivables

	2016	2015
Amounts falling due within one year:	**£m**	£m
Trade receivables	**116.6**	120.0
Provision for impairment of trade receivables	**(29.0)**	(28.0)
Prepayments and accrued income	**79.5**	69.9
Amounts owed by Group companies	**18.7**	17.7
Other tax and social security	**7.3**	7.4
Other receivables	**0.7**	1.3
	193.8	188.3
Amounts falling due after more than one year:		
Amounts owed by Group companies	**1,248.8**	1,256.9

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 19 for further details of credit risks associated with financial instruments.

Amounts owed by Kelda Group companies within one year and after more than one year include £239.8m (2015: £256.0m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and £1,009.0m (2015: £1,009.0m) of upstream loans to Kelda Eurobond Limited.

Trade receivables can be analysed as follows:

	2016	2015
	£m	£m
Main charges trade receivables:		
Past due but not impaired	**77.3**	80.2
Past due and impaired	**27.9**	26.5
Other trade receivables:		
Past due but not impaired	**10.3**	11.8
Past due and impaired	**1.1**	1.5
	116.6	120.0

12. Trade and other receivables (continued)

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

	2016 £m	2015 £m
Main charges trade receivables:		
Less than one year overdue	**49.5**	53.3
Between one and two years overdue	**15.2**	15.2
Between two and three years overdue	**6.9**	6.5
Between three and four years overdue	**3.2**	2.9
More than four years overdue	**2.5**	2.3
Other trade receivables:		
Less than one year overdue	**10.3**	11.8
	87.6	92.0

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

	2016 £m	2015 £m
Main charges trade receivables:		
Less than one year overdue	**10.0**	10.3
Between one and two years overdue	**6.2**	6.0
Between two and three years overdue	**4.6**	4.2
Between three and four years overdue	**3.8**	3.2
More than four years overdue	**3.3**	2.8
Other trade receivables:		
Less than one year overdue	**1.1**	1.5
	29.0	28.0

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

	2016 £m	2015 £m
Provision brought forward	**28.0**	26.2
Provision for impairment	**18.8**	19.9
Amounts written off	**(17.8)**	(18.1)
Provision at 31 March	**29.0**	28.0

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

13. Financing

(i) Cash and cash equivalents

	2016 £m	2015 £m
Cash and cash equivalents	**8.3**	23.3
Short-term deposits	**17.5**	13.7
	25.8	37.0

At 31 March 2016, the Group had available £809.4m (2015: £825.4m) of undrawn committed borrowing facilities.

(ii) Borrowings

Current :	2016 £m	2015 £m
Bank borrowings	**61.2**	41.0
Bank borrowings under Kelda Finance facility	**63.5**	65.0
Finance lease liabilities	**37.2**	34.1
	161.9	140.1

Non-current :	2016 £m	2015 £m
Bank borrowings	**245.5**	277.1
Fixed rate guaranteed bonds due in less than 5 years	**533.6**	722.4
Fixed rate guaranteed bonds due in more than 5 years	**1,969.2**	1,778.6
Index linked guaranteed bonds due in more than 5 years	**1,223.9**	1,208.7
Fixed rate US Dollar bonds due in less than 5 years	**28.2**	28.2
Fixed rate US Dollar bonds due in more than 5 years	**303.2**	285.8
Fixed rate AUS Dollar bonds due in more than 5 years	**29.5**	28.3
RPI uplift on index linked swaps	**154.7**	149.7
Finance lease liabilities	**162.7**	199.9
	4,650.5	4,678.7

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

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

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

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

3.75% guaranteed bonds 2023 £189.1m (2015: £nil)
These bonds are repayable in one sum on 22 March 2046. The interest is charged at 3.75%

6.5876% guaranteed bonds 2023 (Exchange bonds) £210.7m (2015: £211.8m)
These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

13. Financing (continued)

5.375% guaranteed bonds 2023 (Stranded bonds) £4.7m (2015: £4.5m)
These bonds are repayable in one instalment on 21 February 2023. Interest is charged at 5.375%.

5.5% guaranteed bonds 2027 (Stranded bonds) £6.4m (2015: £6.4m)
These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

6.454% guaranteed bonds 2027 (Exchange bonds) £135.5m (2015: £135.5m)
These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

6.6011% guaranteed bonds 2031 (Exchange bonds) £255.0m (2015: £255.0m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.6011%.

6.625% guaranteed bonds 2031 (Stranded bonds) £0.7m (2015: £0.7m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

5.5% guaranteed bonds 2037 £196.1m (2015: £195.2m)
These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

6.375% guaranteed bonds 2039 £304.5m (2015: £304.8m)
These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

5.75% guaranteed bonds 2020 £197.7m (2015: £197.1m)
These bonds were taken out on 6 February 2013 and are repayable in one sum on 17 February 2020. The interest is charged at 5.75%.

3.625% *guaranteed bonds 2029 £262.9m (2015: £266.2m)*
These bonds were issued on 1 August 2012 are repayable in one instalment on 1 August 2029. The interest is charged at 3.625%.

4.965% Class B guaranteed bonds 2033 £104.1m (2015: £101.5)
These bonds were issued in May 2013 and are repayable in one instalment on 12 December 2033. The interest is charged at 4.965%.

3.54% guaranteed bonds 2029 £102.1m (2015: £99.9m)
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) £153.0m (2015: £147.0m)
These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.718% index linked guaranteed bonds 2039 £328.5m (2015: £324.9m)
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.

13. Financing (continued)

2.16% % index linked guaranteed bonds 2041 £54.1m (2015: £53.4m)
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 £81.8m (2015: £80.7m)
These bonds are repayable in one instalment on 1 February 2050. The interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.462% index linked guaranteed bonds 2051 £162.0m (2015: £159.8m)
These bonds are repayable in one instalment on 1 August 2051. The interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.758% index linked guaranteed bonds 2054 £107.1m (2015: £105.7m)
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 £161.9m (2015: £159.8m)
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 £125.9m (2015: £124.2m)
These bonds are repayable in one instalment on 1 February 2058. The interest is charged at 1.709% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

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

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

Fixed rate US Dollar bonds

During the financial year ended 31 March 2012 the Yorkshire Water Services group of companies 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.

13. Financing (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 19 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 £44.9m (1 - 2 years), £107.9m (2 - 5 years) and £92.7m (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 3.92% (2015: 3.94%).

(iii) Finance leases

Amounts payable under finance leases:	**Minimum lease payments 2016 £m**	Minimum lease payments 2015 £m
No later than 1 year	**74.7**	49.4
Later than 1 year and no later than 5 years	**89.8**	160.7
Later than 5 years	**93.4**	100.7
	257.9	310.8
Less: future finance charges on finance lease liabilities	**(58.0)**	(76.8)
Present value of lease obligations	**199.9**	234.0
Amount due for settlement within 12 months	**37.2**	34.1
Amount due for settlement after 12 months	**162.7**	199.9
	199.9	234.0

All lease obligations are denominated in sterling.

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

14. Trade and other payables

Amounts falling due within one year:	2016 £m	2015 £m
Trade payables	**51.1**	56.8
Capital payables	**61.0**	68.4
Social security and other taxes	**2.0**	1.9
Receipts in advance	**56.9**	55.5
Amounts owed to Group companies	**5.2**	10.8
Interest payable	**101.3**	107.1
Deferred income	**356.2**	161.9
Other payables	**17.0**	31.0
	650.7	493.4
Amounts falling due after more than one year:		
Interest payable	**13.9**	30.0
Other payables	**1.6**	1.4
	15.5	31.4

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

Deferred income of £356.2m above includes £156.8m deferred income from infrastructure connection charges previously presented within fixed assets.

Amounts owed to group companies are in relation to trading balances and are repayable on demand.

15. Provisions for other liabilities and charges

	£m
At 31 March 2016 and at 1 April 2015	**0.7**

Certain subsidiaries of the Group operate a self-insurance policy. Provisions relate to estimated liabilities relating to self-insured claims, including an estimate for claims incurred but not reported.

16. Deferred income tax liabilities

	Accelerated capital allowances	Fair value adjustment of infrastructure assets	Fair value adjustment of land and buildings	Roll-over relief	Financial instruments	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2014	457.3	306.8	3.4	0.7	(274.9)	493.3
Adjustment to classification	47.3	(47.3)	-	-	-	-
(Credit)/charge to income statement	(33.2)	55.4	-	-	(72.6)	(50.4)
Charge to equity	-	46.8	-	-	-	46.8
At 1 April 2015	471.4	361.7	3.4	0.7	(347.5)	489.7
Adjustment to classification						
(Credit)/charge to income statement	(67.8)	(30.5)	-	(0.1)	56.9	(41.5)
(Credit)/charge to equity	0.1	(4.8)	(0.3)	-	-	(5.0)
At 31 March 2016	**403.7**	**326.4**	**3.1**	**0.6**	**(290.6)**	**443.2**

17. Pensions

(i) Defined benefit scheme

The parent group sponsors a UK pension scheme, called the Kelda Group Pension Plan (KGPP). This scheme was previously sponsored by Kelda Group Limited (formerly Kelda Group 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 majority of members paid contributions over the year ended 31 March 2016 at rates of 5%, 6%, 7%, or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The Group contributed 14.6% of pensionable pay. The Group also paid lump sum deficit contributions of £1m per month in the year to 31 March 2016.

An accrual for unfunded benefits of £3.6m (2015: £3.9m) has been included in the Group's financial statements at 31 March 2016.

The sponsoring employer of the KGPP is Kelda Group Limited, a subsidiary of Kelda Holdings Limited. As there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole as measured in accordance with IAS 19 (Revised) to individual Group entities, Kelda Finance (No. 1) Limited Group recognises a cost equal to the contributions made by its subsidiaries.

Details of the major assumptions and scheme assets and liabilities of the KGPP can be found below.

17. 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.

	2016 %	2015 %
Inflation (RPI)	**2.85**	2.95
Rate of increase in salaries	**3.85**	3.95
Discount rate for scheme liabilities	**3.55**	3.30
Life expectancy for a male pensioner aged 60 (in years)	**26.5**	26.6
Projected life expectancy at age 60 for male aged 40 (in years)	**28.4**	28.5

(iii) Scheme assets and liabilities

Scheme assets are stated at their bid values at the respective balance sheet dates.

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

	2016 £m	2015 £m
Fair value of scheme assets		
Equities	**197.1**	203.7
Bonds	**211.0**	290.8
Property	**75.7**	74.8
Other	**786.9**	739.1
Total value of assets	**1,270.7**	1,308.4
Present value of scheme liabilities	**(1,212.6)**	(1,395.9)
Pension liability	**58.1**	(87.5)

(iv) Defined contribution scheme

The Group ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007. The total charged to the income statement for the defined contribution schemes for the year ended 31 March 2016 was £2.2m (2015: £2.0m).

18. Ordinary shares

	2016 £	2015 £
Issued and fully paid: 100 (2015: 100) Ordinary shares of £1.00 each	**100**	100

19. 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 financial liabilities comprise the following:

	2016 Less than one year £m	**2016 More than one year £m**	**2016 Total £m**	2015 Less than one year £m	2015 More than one year £m	2015 Total £m
Financial assets:						
Fixed to floating interest rate swaps	**-**	**48.5**	**48.5**	-	39.0	39.0
Combined cross currency interest rate swaps	**-**	**42.3**	**42.3**	-	28.8	28.8
	-	**90.8**	**90.8**	-	67.8	67.8
Financial liabilities:						
Finance lease interest swaps	**-**	**(24.9)**	**(24.9)**	-	(24.2)	(24.2)
Index linked swaps	**-**	**(1,579.5)**	**(1,579.5)**	-	(1,708.6)	(1,708.6)
Combined cross currency interest rate swaps	**-**	**(5.5)**	**(5.5)**	-	(6.5)	(6.5)
Energy derivative	**-**	**(9.9)**	**(9.9)**	-	-	-
	-	**(1,619.8)**	**(1,619.8)**	-	(1,739.3)	(1,739.3)
Net debt:						
Cash and short term deposits	**25.8**	**-**	**25.8**	37.0	-	37.0
Loans receivable from Group companies	**-**	**1,009.0**	**1,009.0**	-	1,009.0	1,009.0
Borrowings	**(161.9)**	**(4,650.5)**	**(4,812.4)**	(140.1)	(4,678.7)	(4,818.8)
	(136.1)	**(3,641.5)**	**(3,777.6)**	(103.1)	(3,669.7)	(3,772.8)

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

The Group has made a provision for the mark to market loss of £1,734.3m (2015: £1,858.3m) on index linked swaps. £1,579.5m (2015: £1,708.6m) is shown as index linked swaps as in the table above; the remaining £154.7m (2015: £149.7m) is shown within borrowings in note 13.

19. 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 2016 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Year ended 31 March 2016

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	35.7	34.6	23.7	23.1	27.5	0.0	144.6
Guaranteed bonds	129.9	365.9	114.9	578.6	86.9	2,437.6	3,713.8
US Dollar bonds	11.3	11.3	39.4	10.4	10.4	274.0	356.8
Other interest rate swaps	3.1	3.2	3.2	3.3	3.3	28.9	45.0
Finance lease swaps	2.3	2.2	2.3	2.2	2.2	22.1	33.3
	182.3	417.2	183.5	617.6	130.3	2,762.6	4,293.5
Floating rate							
Index linked guaranteed bonds	24.7	24.7	24.7	24.7	24.7	1,728.8	1,852.3
US Dollar bonds	1.2	1.2	1.2	1.2	1.2	77.5	83.5
Guaranteed bonds	9.6	9.6	9.6	9.6	9.6	302.9	350.9
Bank loans	6.5	69.2	18.3	18.1	17.9	99.7	229.7
Combined cross currency interest rate swaps	7.6	7.9	8.2	7.7	7.7	19.3	58.4
Index linked swaps	7.8	9.7	10.3	10.6	10.6	114.6	163.6
Fair value interest rate swaps	40.3	125.1	65.8	40.3	87.8	1,824.5	2,183.8
Finance leases	74.7	51.9	15.1	17.0	5.7	93.5	257.9
	172.4	299.3	153.2	129.2	165.2	4,260.8	5,180.1
Non-interest bearing financial liabilities							
Trade payables	51.1	-	-	-	-	-	51.1
Other payables	85.2	1.6	-	-	-	-	86.8
	136.3	1.6	-	-	-	-	137.9

19. Financial instruments (continued)

Year ended 31 March 2015

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	36.8	35.7	34.6	23.7	23.1	27.5	181.4
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	3.1	3.2	3.2	3.3	3.3	29.0	45.1
Finance lease swaps	2.3	2.2	2.0	1.9	1.9	20.7	31.0
	187.9	186.8	610.3	175.7	609.8	2,664.1	4,434.6
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	6.5	6.9	85.1	19.3	19.0	118.8	255.6
Combined cross currency interest rate swaps	7.4	7.4	7.4	7.4	7.4	19.0	56.0
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
	159.2	204.2	265.2	144.0	122.8	4,146.6	5,042.0
Non-interest bearing financial liabilities							
Trade payables	56.8	-	-	-	-	-	56.8
Other payables	261.1	-	-	-	-	-	261.1
	317.9	-	-	-	-	-	317.9

(b) Financial risks

Capital risk management

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

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

Centrally managed funds are invested entirely 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.

19. Financial instruments (continued)

Credit risk

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

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

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

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

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

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

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

	Group 2016 £m	**Company 2016 £m**	Group 2015 £m	Company 2015 £m
Cash and short term deposits (see note 13)	**25.8**	**-**	37.0	-
Trade and other receivables (see note 12)	**1,442.6**	**-**	1,445.2	-
Financial assets	**90.8**	**-**	67.8	-
Investments	**-**	**778.4**	-	778.4

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.

19. Financial instruments (continued)

The Group looks to manage its liquidity by ensuring debt is held with a range of durations and the maturity profile is actively managed by the Group's treasury function. Existing bank covenants require the Group to keep a combination of available cash and banking facilities sufficient to cover anticipated capital expenditure, operating costs and interest costs for the succeeding 12 months. This is a rolling requirement. The Group extend the requirement to cover all other future outgoings. Further facilities are not expected to be required within the next year to comply with the above policy.

At 31 March 2016 the Group had £835.2m of available liquidity (2015: £862.4m) which comprised £25.8m available cash and short term deposits (2015: £37.0m) and £809.4m of undrawn committed borrowing facilities (2015: £825.4m).

The maturity profile on page 73 represents the forecast future contractual principal and interest cashflows in relation to the Group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

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

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

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

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

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

19. 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).

19. Financial instruments (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 period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2016	2015				
1) Interest rate swaps, combined cross-currency swaps, fixed rate bonds, indexed linked swaps	Assets – £90.8m; Liabilities (designated for hedging) - £542.1m; and Liabilities (not designated for hedging) - £529.0m	Assets – £67.8m; Liabilities (designated for hedging) – £550.2m; and Liabilities (not designated for hedging) – £861.8m	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 period) and contract interest rates, discounted at a rate that reflects own or counter-party credit risk.		
2) Interest rate swaps	Liabilities (not designated for hedging) £1,240.1m	Liabilities (not designated for hedging) – £1,020.7m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	• Counter-party cost of funding assumption. • Assumptions relating to long-term credit beyond observable curves.	Unobservable inputs contribute on average to 17% of the fair value of level 3 instruments, equalling a total of £472.7m of the fair value included in the financial statements.

19. Financial instruments (continued)

The following table provides the fair values of the Group's financial assets and liabilities at 31 March:

	2016 Level 1 £m	**2016 Level 2 £m**	**2016 Level 3 £m**	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m
Primary financial instruments financing the Group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	**(25.8)**	**-**	**-**	(37.0)	-	-
Derivative financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	**-**	**(42.3)**	**-**	-	(39.0)	-
Cross-currency interest rate swaps	**-**	**(48.5)**	**-**	-	(28.8)	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	**-**	**24.9**	**-**	-	24.2	-
Combined cross currency interest rate fair value swaps (US dollar and AU dollar)	**-**	**5.4**	**-**	-	6.5	-
Fixed rate US dollar bonds	**-**	**285.0**	**-**	-	313.9	-
Fixed rate AU dollar bonds	**-**	**33.7**	**-**	-	28.3	-
Fixed rate sterling bonds	**247.2**	**179.1**	**-**	266.2	201.4	-
Fixed to floating interest rate swaps	**-**	**38.9**	**-**	-	-	-
Index linked swaps	**-**	**494.2**	**1,240.1**	-	837.6	1,020.7
Energy derivative	**-**	**9.9**	**-**	-	-	-
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	**2,465.0**	**18.4**	**-**	2,546.8	18.8	-
Index linked sterling bonds	**383.8**	**974.8**	**-**	393.8	1,032.1	-

19. Financial instruments (continued)

Reconciliation of Level 3 fair value measurements of financial liabilities:

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

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

	Reflected in profit or loss	
	Favourable change £m	Unfavourable change £m
Level 3 financial instrument assumptions:		
10 basis point change in counter-party funding assumption	26.0	(26.0)
10 basis point change to credit curve assumption	53.0	(53.0)

Inflation linked swaps

The Company holds a number of index linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with the swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the index linked swaps. This is accrued in the profit and loss account and recognised within long-term borrowings.

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

19. Financial instruments (continued)

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

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

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

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

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

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

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

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

19. Financial instruments (continued)

Interest rate swaps

Income from the movement in fair value of combined cross currency interest rate swaps of £14.6m was recognised in the income statement (2015: £53.0m), offset by the change in fair value of the associated bonds of £18.3m (2015: £48.8m). Of the change in fair value of associated bonds, £17.3m (2015: £47.8m) relates to Fixed US Dollar bonds. The remaining £1.0m (2015: £1.0m) change in fair value relates to the movement between the fair value of AUS Dollar bonds.

Movements in the fair value of fixed to floating interest rate swaps of £9.4m was recognised in the income statement (2015: £68.3m), offset by the change in fair value of the associated bonds of £1.4m (2015: £63.5m). £3.4m charge (2015: £38.1m credit) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £265.8m (2015: £266.2m) at 31 March 2016. £2.6m (2015: £15.2m) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £104.7m (2015: £101.5m) at 31 March 2016. The remaining £2.2m (2015: £10.2m) change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond with a fair value of £102.4m (2015: £99.9m) at 31 March 2016. These bonds were valued at £89.7m (net of issue costs) when issued. All interest rate swaps have maturity dates in excess of five years.

Movements in the fair value of fixed rate swaps in respect of finance leases of a charge of £0.7m were recognised in the income statement as an exceptional item (2015: £8.6m).

(d) Hedges

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

Interest rate swaps are used to manage interest rate exposure under a policy that requires at least 85% of Yorkshire Water Services Limited net debt (a subsidiary of Kelda Finance (No.1) Limited) to be in fixed or index linked form. At the financial year end the proportions at Yorkshire Water Services Limited and Kelda Finance (No.1) Limited was 105% and 103% respectively (2015: 110% and 105%).

Hedging of floating rate interest due on borrowings

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

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

The nominal value of index linked swaps total £1,289.0m and have an average life (excluding mandatory breaks) of 24 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 15 years.

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

19. Financial instruments (continued)

Hedging of interest due under finance leases

The Group has a number of finance leases with a number of counterparties lasting from inception to 21 February 2043.

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

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

Fair value hedges

Combined cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the Group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The Group has made a recognised and asset of £42.3m (2015: £28.8m) for the mark to market gain in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £17.3m (2015: £27.1m) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The Group has a £33.8m combined cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an Australian dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. The hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £5.4m (2015: £6.5m) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £1.1m (2015: gain of £5.3) 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.

19. Financial instruments (continued)

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

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

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

Foreign currency risk management

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

20. Post balance sheet event

There are no significant post balance sheet events.

21. Additional cash flow information

Analysis of movement in net debt

	At 1 April 2014 £m	Non-cash movements £m	Cash movements £m	At 1 April 2015 £m	**Non-cash movements £m**	**Cash movements £m**	**At 31 March 2016 £m**
Cash and cash equivalents	30.2	-	6.8	37.0	**-**	**(11.2)**	**25.8**
Debt due within one year	(256.6)	(46.4)	197.0	(106.0)	**(29.5)**	**10.8**	**(124.7)**
Finance leases due within one year	(28.9)	-	(5.2)	(34.1)	**-**	**(3.1)**	**(37.2)**
	(285.5)	(46.4)	191.8	(140.1)	**(29.5)**	**7.7**	**(161.9)**
Debt due after one year	(4,247.4)	(144.0)	(87.4)	(4,478.8)	**(28.5)**	**19.5**	**(4,487.8)**
Finance leases due after one year	(234.0)	-	34.1	(199.9)	**-**	**37.2**	**(162.7)**
	(4,481.4)	(144.0)	(53.3)	(4,678.7)	**(28.5)**	**56.7**	**(4,650.5)**
Total net debt	(4,736.7)	(190.4)	145.3	(4,781.8)	**(58.0)**	**53.2**	**(4,786.6)**

Net debt does not include financial liabilities which are not considered to be part of the Group's borrowings.

21. Additional cash flow information (continued)

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

	2016 **£m**	2015 £m
Profit/(loss) from continuing operations before taxation	**184.3**	(182.1)
Finance income	**(85.6)**	(85.1)
Finance costs	**272.5**	294.0
Exceptional finance (income)/costs (non-cash)	**(132.7)**	369.5
Movements of fair value of derivative financial instrument (energy contracts)	**9.9**	(6.4)
Depreciation and amortisation of capital grants	**270.1**	221.4
Profit on disposal of fixed assets	**(1.6)**	-
Amortisation of intangibles	**4.4**	-
Exceptional impairment of property, plant and equipment	**35.0**	-
(Increase)/decrease in inventories	**(0.7)**	(0.5)
Decrease in trade and other receivables	**2.2**	3.5
(Decrease)/Increase in trade and other payables	**(15.0)**	9.7
Other movements	**0.3**	(0.7)
Cash generated from continuing operations	**543.1**	623.3

22. Commitments

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

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 Price Review process which was finalised in December 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.

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

	2016 Land and buildings £m	**2016 Other £m**	2015 Land and buildings £m	2015 Other £m
No later than 1 year	**1.7**	**1.4**	1.6	2.3
Later than 1 year and no later than 5 years	**5.6**	**1.1**	6.2	1.6
Later than 5 years	**0.9**	**-**	1.7	-
	8.2	**2.5**	9.5	3.9

23. Related parties

Compensation of key management personnel (including directors)

	2016	2015
	£m	£m
Short-term benefits	**2.8**	2.6
Post-employment benefits	**-**	0.4
	2.8	3.0

24. Subsidiary companies

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%
Holding and finance companies				
Kelda Finance (No. 2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No. 3) PLC	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Holdings Limited	Cayman Islands	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%

25. Ultimate controlling party

The Company's immediate parent company is Kelda Group Limited. The ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK.

Kelda Eurobond Co Limited, a company registered in England and Wales, is the only UK Group to consolidate these financial statements.

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

Independent auditors' report to the members of Kelda Finance (No. 1) Limited for the Group financial statements

Report on the group financial statements

Our opinion

In our opinion, Kelda Finance (No.1) Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 March 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

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

- the group balance sheet as at 31 March 2016;
- the group income statement and statement of comprehensive 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 the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the information given in the Corporate Governance Statement set out on pages 38 to 39 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the members of Kelda Finance (No. 1) Limited for the Group financial statements

for the year ended 31 March 2016

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on pages 36 and 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of [Enter Legal Entity] for the year ended 31 March 2016.

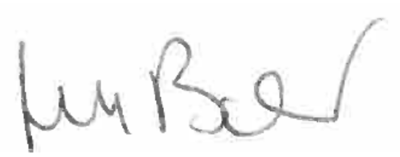
Arif Ahmad (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 July 2016

Kelda Finance (No. 1) Limited
Company balance sheet
as at 31 March 2016

	Note	**2016**	2015
		£m	£m
Fixed assets			
Investments	3	**778.4**	778.4
Total assets		**778.4**	778.4
Net assets		**778.4**	778.4
Capital and reserves			
Called up share capital	4	**-**	-
Profit and loss account		**778.4**	778.4
Total shareholders' funds		**778.4**	778.4

The financial statements on pages 91 to 94 were approved by the board of directors on 19 July 2016 and signed on their behalf by:



Liz Barber
Director

Registered Number: 08066326

Kelda Finance (No. 1) Limited
Company statement of changes in equity
for the year ended 31 March 2016

	Note	Called up share capital £m	Profit and loss account £m	Total Shareholders' funds £m
At 1 April 2014		-	778.4	778.4
Profit for the financial year		-	78.4	78.4
Dividends paid		-	(78.4)	(78.4)
At 1 April 2015		-	778.4	778.4
Profit for the financial year		-	74.7	74.7
Dividends paid	8	-	(74.7)	(74.7)
At 31 March 2016		**-**	**778.4**	**778.4**

During the year, dividends of £74.7m, £0.747m per share (2015: £78.4m, £0.78m per share), were declared and cash settled with the immediate parent company.

1. Company accounting policies

Kelda Finance (No. 1) Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements of Kelda Holdings Limited 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 year 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 years presented in these financial statements.

Measurement convention

The Company's financial statements are prepared on a going concern basis, under the historical cost convention.

Investments in subsidiaries
Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

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.

Share capital
Ordinary shares are classified as equity.

2. Profit attributable to the parent company

The result of the parent company was a profit of £74.7m (2015: £78.4m). Advantage has been taken of the exemption available under section 408 of the Companies' Act 2006 not to present a profit and loss account for the Company alone. The parent company profit and loss account was approved by the board on 19 July 2015.

3. Investments

	Shares in Group undertakings £m
Cost at 31 March 2016 and 31 March 2015	**778.4**

A list of subsidiaries of the Company can be found on page 88. The directors believe that the carrying value of the investments is supported by their underlying net assets.

4. Called up share Capital

	2016 £	2015 £
Issued and fully paid: 100 Ordinary shares of £1.00 each	**100**	100

5. Other information

Details of directors' emoluments are set out in note 5 of the Group financial statements. No elements related specifically to their work in the Company.

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

Auditors' remuneration has been borne by Kelda Group Limited.

6. Ultimate controlling party

The Company's immediate parent company is Kelda Group Limited. The Company's ultimate parent company is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK.

The largest UK Group in which the results of the Company are consolidated is headed by Kelda Eurobond Co Limited, a company registered in England and Wales. The smallest UK group in which they are consolidated is headed by Kelda Finance (No. 1) Limited, incorporated in England and Wales.

These consolidated financial statements are publicly available and copies may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

Independent auditors' report to the members of Kelda Finance (No.1) Limited

Report on the company financial statements

Our opinion

In our opinion, Kelda Finance (No.1) Limited's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the company balance sheet as at 31 March 2016;
- the company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on pages 36 and 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of [Enter Legal Entity] for the year ended 31 March 2016.

Arif Ahmad (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 July 2016