Registered Number: 08066326

KELDA FINANCE (No. 1) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

KELDA FINANCE (No. 1) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014

Contents

Kelda Finance (No. 1) Limited
Strategic Report
for the year ended 31 March 2014

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.

These are our six strategic objectives, that shape everything we do:

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

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

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

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

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

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

BUSINESS PERFORMANCE

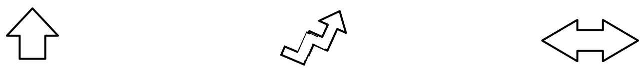
An overview is provided below of YW performance by examining progress towards each of the six SBOs which summarise the Group strategy to achieve its vision of: 'taking responsibility for the water environment for good'.

Reported under each SBO is:

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

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

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



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

STRATEGIC BUSINESS OBJECTIVE – TRUSTED COMPANY

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

Measures of regulatory compliance	Target	Current year	Previous year
Service Incentive Mechanism, SIM (Overall score)	80	82	78
Serviceability – water infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – water non-infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – sewerage infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – sewerage non-infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable

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

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Trend**
YW is recognised as leader in customer service by current and future customers.	Launch Phase 1 of new YW website.	Plan to launch website in Autumn 2014	↑
	Top three position in Ofwat's SIM.	Second in the customer qualitative survey part of SIM and await official confirmation of overall position. YW has made advances in its customer service in practice, and continues with its customer services improvement programme.	↑
YW have fair and transparent policies and procedures in place.	Kelda Group 'Colleague Trust' score of 7 out of 10 in internal colleague survey.	Latest average colleague trust score was 6.5 out of 10 and increasing in recent quarters. Latest score was 0.1 points lower than the start of the year.	↔
YW is a 'role model' business and seek to be open in everything it does.	Business in the Community (BiTC) Corporate Responsibility Index Gold status requiring a score over 90%.	BiTC have introduced a new grading system. YW achieved 3.5 stars and increased its score to 93%.	↑
Through its brand, its audiences understand who YW is and what it stands for.	Develop sustainability reporting.	Published sustainability report in December 2013 and YW Annual Report in 2014 includes first step towards 'Integrated Reporting'.	↑
	The launch of Blueprint internally and externally.	Blueprint launched in 2013	↑

Measures of ambition to go beyond regulatory duties (continued)			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Trend**
An innovative and continually evolving engagement programme in place with all stakeholders.	Launch of first stakeholder conference.	Stakeholder conference held in 2013	⇧
	Stakeholder mapping and development programme in place.	New approach to partnership continues to develop	⇧
	PR14 acceptability from Customer Forum, key stakeholders and Ofwat.	Strong support received for PR14 plan following biggest ever engagement	⇧

The arrows show the trend of annual performance in the context of the long-term goals. Further explanation is provided on page 2.

Delivering leading customer service
Customers have benefited from real advances in YW customer service over the last year.

YW's SIM (Service Incentive Mechanism) performance has risen substantially in recent quarters. The regulator, Ofwat, developed SIM as a measure of customer service in the water industry. YW is confirmed to have ranked second in the water industry on the customer satisfaction measure of SIM in 2013/14, and first in recent quarters. The customer satisfaction measure is one of several measures within SIM. Overall YW achieved 82 points out of a maximum score of 100. This is up from 78 points last year, and YW is working to ensure continued improvement in 2014/15.

YW continues with its programme of customer service improvements. For example, a new website based on extensive analysis of customer expectation is currently being developed. This will go live in Autumn 2014. The new website will help customers to more easily access the information they want in a format suitable to them. In response to customer demand, the aim is to increase the levels of self-service functionality that the website can offer. The new website will also be used to enhance the quality and format of information provided for customers and stakeholders.

The Water Act 2014 is introducing greater retail competition, enabling all business, charity and public sector customers to switch their water and sewerage supplier. This presents both opportunities and threats to the business and YW is monitoring developments closely as it continues to develop its position.

Maintaining service today and into the future
YW needs to maintain essential services to its customers whatever the circumstances. YW ensures high levels of service resilience through an array of measures which have worked well through numerous recent extreme events, including the east coast storm surge in December 2013.

Unexpected failure or disruption can cause a significant interruption to services provided to customers and the environment. Catastrophic events can result in injury or loss of life, and significant damage to the environment and assets. This can affect colleague wellbeing, operations and reputation, as well as resulting in additional costs including liability to customers or loss of revenue.

YW manages risks to all hazards through its corporate and operational risk management processes. Extensive emergency plans are in place to enable a fast and effective response to, and recovery from, an asset or service failure event. An Incident

Management Framework provides a staged response to ensure the effective allocation of resource to any incident.

To ensure that YW can provide services today and long into the future, over a million pounds a day is invested to maintain and enhance the legacy of assets and infrastructure. This includes over 700 treatment works, thousands of pumping stations and enough pipes to stretch around the world. In 2013/14 YW achieved “stable serviceability” in all four asset categories for the second year running. Serviceability is a measure used by the water industry to demonstrate the effectiveness of asset maintenance. Further details on YW’s serviceability performance can be found in YW’s Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

Planning for long-term challenges like population growth, climate change and decreasing availability of resources is also in progress. In 2013 YW published a suite of documents about its plans for the future, called Blueprint for Yorkshire. One document examines, and is called, ‘the next 25 years’. YW’s ‘climate change strategy’ explains how it is working to ensure it can affordably maintain and enhance services in the changing climate, and cost-effectively reduce its carbon emissions. Both reports are available at:
www.BlueprintForYorkshire.com.

YW is required to publish an annual Risk and Compliance Statement each year by its regulator, Ofwat. In this year’s Risk and Compliance Statement the YW board identified pollution incidents and discharge permits compliance as material or potentially material risks. Mitigation plans have been put in place to tackle the potential risks, details of which can be obtained in the Statement publication, available at: www.yorkshirewater.com.reports. Details on these risks and the management responses are also found in this report. Further details on company performance and management responses to both these risk areas can be found in the Excellent Catchments, Rivers and Coasts SBO section of this report.

Engaging with customers and stakeholders

In 2013/14 YW completed its biggest ever customer and stakeholder engagement programme. To inform the development of its business plan for the period from 2015 to 2020 and beyond, the views of more than 30,000 customers and 100 stakeholder groups were obtained.

YW established an independent Customer Forum to help ensure that its customers had a fair say in its plans. The Forum represents the needs of customers and the environment in the Yorkshire region. The Forum challenged YW to be more transparent, to strike the right balance between customer needs and environmental leadership, and to do everything it could to keep bills low. YW will continue to work with the Forum in the future to ensure that customers have an ongoing say in its plans.

YW held a stakeholder conference at the Yorkshire Event Centre in Harrogate in July 2013, to share and discuss its plans. The event was attended by representatives from more than 80 different organisations, including Local Authorities, NGO’s, businesses, academic institutions and investor groups.

YW aims to have an innovative and continually evolving engagement programme in place with all its stakeholders. One way this will be achieved is through a new research and insight team who will manage regular engagement activities and help ensure decisions are

based on customer insight. Full details of YW customer engagement and plans can be found at:
www.BlueprintForYorkshire.com.

Working in partnership
Working in partnership is becoming ever more important to effectively and efficiently address priorities such as flooding and pollution. YW has many examples of where it is already working with others to deliver greater benefits for the region, but it also recognises that there is a need to do more of this.

YW is currently formalising its approach to partnership and stakeholder relationship management. This will help YW to ensure that it manages stakeholder relationships in a tailored way that best suits both parties, and that it is effective in developing partnerships where they have the biggest benefits for its customers and wider society.

YW has worked in partnership with various organisations for many years. For example:

- worked closely with the Environment Agency and Local Authorities on the regions flood management by sharing data and hydraulic models, and sharing resources in emergencies;
- an active member of the Yorkshire Bathing Water Partnership that has been successful in growing the number of Blue Flag beaches in the region; and
- continue to restore and protect vast areas of Yorkshire's uplands by working closely with organisations like the Yorkshire Peat Partnership and local land owners.

Supporting the community
YW lead an extensive community engagement programme to go beyond its regulatory duties by providing support and help-in-kind to a wide variety of different organisations across Yorkshire. YW encourage and support colleagues in volunteering, charitable giving and community involvement. Many employees are active in a wide range of supported community activities. Support was provided in three key areas:

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

Benchmarking the approach to being a responsible business
YW uses the Business in the Community (BiTC) Corporate Responsibility Index as one way to benchmark its performance against its peers each year. The BiTC Index is the UK's leading voluntary benchmark of corporate responsibility. In 2013/14 YW's score increased to 93%, up from 90% the previous year. YW has also been awarded a BiTC Big Tick in their Responsible Business Awards 2013/14. The increase in the score and the success in winning a Big Tick provides external assurance that YW is among the leaders in corporate social responsibility and sustainability.

Managing colleague trust
The strong performance achieved in 2013/14 was a result of the hard work, commitment and energy of colleagues. It was a demanding year of change for many of YW's people, not least because of an organisational restructure at the same time as significant operational challenges, all of which followed shortly after change to the company's pension

plans. In addition, colleagues were affected by the external national debate about the company and other utilities in the media.

Generally YW colleagues tell their business leaders that they are proud to work for YW as a provider of essential and quality water and waste services. However through internal surveys and regular leadership feedback sessions, colleagues told the company that trust fell in the first part of 2013/14. Listening to this, YW took immediate action by acknowledging this and improving communications. The trust scores started to recover in Q3 and continued to improve in Q4.

Recognising that trust is something that needs regular reinforcement, the Group's business leaders have made colleague trust a business priority in 2014/15. Trust is already a strong foundation for YW and its plan is to continue to build on this, for example through more visible leadership, stronger internal communications and engagement, improved problem resolution, greater employee recognition and increased partnership working with trade unions.

Further information on colleague engagement and inclusion is provided in the section 'Employees and employment policies' in the Directors' Report on pages 33 to 35.

Championing diversity and human rights
YW recognises the strength of a diverse workforce that represents the society it serves.

YW is working to ensure a gender balanced workplace and is actively engaged in internal and external programmes to redress its gender imbalance, particularly at senior levels. YW is proud that its board has a strong female representation. YW wants to go further throughout its business and continue to influence others on matters of diversity. Below is a gender breakdown for YW. The figures show YW's total number of employees on 31 March 2014.

	Number of employees	
	Male	Female
Directors	7	4
Senior managers	24	5
Total employees	1,818	558

YW's policy on human rights recognises international human rights as set out in the International Bill of Human Rights, and the principles described in the UN Global Compact. The policy was approved as a Kelda Group policy in 2013 and can be found at: http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf.

YW recognises that the successful implementation of its Human Rights Policy is heavily influenced by the cooperation and support of the company's supply chains. Accordingly, YW actively manages and monitors its supply chains to ensure working practices are consistent with the policy.

STRATEGIC BUSINESS OBJECTIVE – SAFE WATER

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

Measures of regulatory compliance	Target	Current year	Previous year
Internal sewer flooding (number of incidents)	127	76	155
*Water quality – overall compliance	99.95%	99.96%	99.93%

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

*Calendar year measure

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Trend**
YW's health, safety and wellbeing culture is recognised as mature, leading to positive external influence.	Have a clear plan in place for the effective implementation of the new Occupational Health & Safety Management System (OHSMS).	Plan in place for OHSMS	⇧
YW is recognised by the Drinking Water Inspectorate (DWI) as improving across all water quality measures.	Agree investment plans for PR14 and a stretching programme of catchment management with the DWI.	Investment programme (including catchment management) agreed with DWI and included in the plan for 2015 to 2020.	⇧
	Develop service reservoir improvement plan.	Service reservoir improvement plan implemented in 2013/14.	⇧
A strategic plan considering all causes and sources of flooding, to protect the people of Yorkshire from sewer flooding.	Put in place an agreed storm water management strategy.	Storm water management position paper produced and programme of activity included in the plan for 2015 to 2020.	⇧
YW is recognised as an industry leader in the promotion of global safe water.	Agree approach internally and test with the Department for International Development (DfID) and the water industry.	High level approach defined, including public commitment to the WaterAid Ethiopia project. Positive feedback from DfID.	⇧
YW is a recognised leader in recreational use of land and waters.	Put in place recreational strategy for Yorkshire Water owned waters and land.	Recreational strategy to be developed	⇔
	Recreational stakeholder Forum established.	Recreational stakeholder Forum to be developed.	⇔

The arrows show the trend of annual performance in the context of the long-term goals. Further explanation is provided on page 2.

Putting people's health, safety and wellbeing first

To achieve the vision and SBOs, it is essential that YW works to prevent harm and protect health across all stages of its business operations, environments and communities.

The drive for continual improvement is supported by an Occupational Health & Safety Management System (OHSMS). This enables the Group to enhance its health and safety performance and to maintain a clear focus on meeting the needs of the Group's people, stakeholders, customers and members of the public. This is at the heart of the Group's approach.

Further information on the Group's health and safety approach is detailed in the Directors' Report on pages 35 and 36.

Maintaining excellent drinking water quality

Protecting public health is a primary duty. Drinking water quality within Yorkshire remains excellent. In 2013/14, YW's compliance increased to 99.96% of hundreds of thousands of samples meeting tight regulatory standards. YW completed a large service reservoir inspection and improvement programme in 2013/14 to contribute to this performance improvement. Further details on YW's water quality performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

Over the past two decades, raw water quality has deteriorated in many catchment areas. The more polluted raw water is, the more the need to treat it to make it fit for drinking. A twin-track approach is used to ensure that customers receive high quality drinking water despite the deteriorating raw water quality. YW is investing to enhance treatment capabilities where the probability of failure presents an unacceptable risk to customers. The long-standing programme of capital investment will continue with a further £49m of investment in the period from 2015 to 2020, including action at six large treatment works. Investment in catchment management, as a primary long-term response to address the issue at source, is also planned. The approach to catchment management is outlined in the section on the Excellent Catchments, Rivers and Coasts SBO.

Reducing flood risk

In 2013/14 YW removed 66 properties from being at risk of sewer flooding and reduced the overall number of properties at risk of sewer flooding on the regulated risk register to 204 across the region. YW continues to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. Further details on YW's sewer flooding performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports.

YW played an active role in the response to the east coast storm surge in December 2013, described as the most serious UK storm surge for over 60 years. YW had representatives at the two Strategic Command Centres which operated in East and North Yorkshire to manage the response. In Hull YW assets were utilised to remove 35,000 tonnes of water from the city. Services were maintained, despite damage to YW assets.

YW also offered assistance to the Environment Agency (EA) during the extensive flooding to the south and west of the UK during the early part of 2014.

YW is working in ever closer partnership with other flood management authorities, for example:

- worked with Calderdale MBC and the EA on reducing flood risk in the Calder Valley;
- sharing information with the Lead Local Flood Authorities identifying relatively low cost joint funding flood schemes, notably in Sheffield and East Riding of Yorkshire; and
- playing an active part in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships, by sharing YW's future flood and investment plans and informing the RFCC of the investment framework and plans.

YW is also investing to protect its own assets from flood risk to enhance the resilience of its services. For example, YW has invested at Hull and Market Weighton to provide a 1 in 1,000 year level of protection at these key sites, and YW is investing at Moor Monkton in 2014/15.

Extreme weather and urban growth are causing increasing pressure on the sewer network and the risk of flooding. YW is planning for the future and produced both its climate change strategy and storm water management position paper in 2013. YW will continue to invest to mitigate the risk and manage the consequences of sewer flooding. One part of the plans is a new £8m fund for flood partnership projects.

YW is also focusing on customer behaviour by developing education and awareness programmes to reduce sewer blockages caused by customer activities, in particular disposal of fats, oils and greases (FOGs), nappies, wipes and other materials which are inappropriately disposed of via the sewer network. For example, YW have been trialling an approach of customer engagement combined with above ground collection of FOGs in an area of Bradford where repeated sewer blockages have been observed.

Supporting global safe water
As Kelda Group, we recognise a moral obligation to support those who do not have access to clean safe drinking water and safe sanitation. Around the world, 3.4 million people die each year from water related diseases and 780 million people lack access to safe clean drinking water.

We have a long history of fund raising for WaterAid, and our SBO ambition is to go much further. Our aim is to be globally recognised as a leader in the delivery of safe water. We have recently launched a strategic partnership with WaterAid Ethiopia. This will deliver knowledge sharing on water and sanitation, provide infrastructure support, fundraising and much more.

We recognise that we are at the early stages of a long-term ambition and we continue to develop our approach.

Providing access to land
YW is one of the largest land and open-water owners in Yorkshire. The company owns approximately 29,000 hectares of land which includes upland moors, woodland of mixed age and species, reservoirs, and land rented to farmers. For many years YW has provided open access to much of its large estate, particularly the woodland and upland moors. This has provided a wide range of recreational opportunities that include 100 km of permissive footpath, 33 km of permissive bridleway/cycle routes, two nature reserves, two fisheries

and a range of ancillary facilities such as car parks, picnic sites, toilets and information points in addition to the 1100 km of public rights of way and Countryside and Rights of Way Act (CRoW) access land.

YW works to ensure large numbers of people can safely enjoy its land and are dedicated to increasing its recreational offering through direct management and lease arrangements. The Tour de France came to Yorkshire in 2014 and YW played its part to make sure the event was a global success and that its land and waters supported the growing recreational demand brought by the event.

Find out more about YWs recreational offering on the website at:
http://www.yorkshirewater.com/walks-and-leisure.aspx

STRATEGIC BUSINESS OBJECTIVE – EXCELLENT CATCHMENTS, RIVERS AND COASTS

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

Measures of regulatory compliance	Target	Current year	Previous year
*Pollution incidents, sewerage (number of Category 1-3 incidents per 10,000km of sewer)	97.70	78.10	82.68
*Serious pollution incidents, sewerage (number of Category 1-2 incidents per 10,000km of sewer)	1.63	3.27	1.63
*Discharge permit compliance	98.00%	98.00%	97.31%

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

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Trend**
An approved ecosystems services approach for land management to deliver stable water quality.	Submit 66 Water Safety Plans and the Water Quality Submission supported by the Drinking Water Inspectorate (DWI).	Water quality submission supported by DWI and included in the plan for 2015 to 2020	
	Sign off Safeguard Zones (SGZ's) with Environment Agency (EA) for implementation in the period 2015 - 2020.	Partnership approach to SGZ being agreed with EA and others	
	Agree invasive species policy.	Invasive species policy documented and formal approval and ownership on-going	
To fully understand and manage the company's assets and their impact on the environment.	7 river catchment systems with plans in place.	Investment plans have been defined with the EA and continue to work in partnership	
	1.63 serious sewerage pollution incidents per 10,000km of sewer.	3.27 serious sewerage pollution incidents per 10,000km of sewer. Long-term trend of improvement with annual fluctuation.	
To maintain Excellent standard on all designated beaches.	To achieve 2 Blue Flags.	3 Blue Flags achieved	
External endorsement for non-designated beach standards.	Achieve 'excellent' standard of water quality compliance at 2 resort beaches.	2 resort beaches achieving 'Excellent'	

The arrows show the trend of annual performance in the context of the long-term goals. Further explanation is provided on page 2.

Reducing pollution and enhancing river water quality
YW is responsible for collecting, treating and returning about 1 billion litres of waste water safely back to the environment every day. Over the last 20 years, by investing to enhance waste water treatment capabilities, YW has delivered a step change in river water quality.

YW improved its performance on waste water treatment in 2013/14, with discharge permit compliance reaching 98%. It also continued its on-going capital investment programme, responding to new legislative drivers and population growth. Plans are in place to further improve discharge permit compliance, details of which can be obtained in the Risk and Compliance Statement publication available at: www.yorkshirewater.com.reports.

The total number of pollution incidents from the sewer network has continued to reduce over recent years, from 95.10 incidents per 10,000km of sewer in 2011, to 82.68 in 2012, to 78.10 last year (2013). The number of the most serious pollution incidents (Category 1 and 2) has fluctuated in recent years but shows an overall trend of improvement. Performance has fallen from 4.25 incidents per 10,000km of sewer in 2011, to YW's best ever performance in 2012 with 1.63 incidents per 10,000 km of sewer, increasing to 3.27 in 2013.

Overall, YW's pollution performance has improved over the course of this Asset Management Period (2010 to 2015). This improvement can be attributed to the Pollution Reduction Plan, which will continue to run throughout 2014/15. YW's plan includes a range of people, process, technology and capital investment activities. In 2014 YW will be trialling a new proactive intervention technique using weather trigger levels. It is known that dry spells cause blockages that can lead to pollution incidents so YW will jet at hot spot locations after a set number of consecutive dry days to break up and remove sewer litter before it becomes a problem.

YW has been working with the EA to model the impact of discharges across the region to understand the ecological implications. Together, a programme of environmental investment and investigation needs, totalling over £300m for the period from 2015 to 2020 has been defined.

YW has prioritised a series of sites to remove or bypass barriers to fish passage and in 2013 opened its first fish pass site, at Rodley in Leeds.

Investing in the region's bathing waters
Investment of £110m to enhance Yorkshire's coastal water quality is nearing completion. YW is improving the treatment capabilities of its coastal waste water treatment works, and increasing the storage capacity of its sewer network at key locations. This will help secure a step change in the region's bathing water quality and will ensure the region's compliance with the revised Bathing Waters Directive which introduces tighter legal standards from 2015.

YW is an active member of the multi-agency Yorkshire Bathing Water Partnership. This group of organisations is working together to align the region's activities on bathing water quality and beach management.

This has resulted in all of the region's 20 bathing beaches meeting the minimum Mandatory Standard in 2013. There were no failing beaches. 16 beaches met the higher Guideline Standard and were recommended in the latest Good Beach Guide by the Marine Conservation Society, which is an improvement of six beaches since last year.

The region has achieved three coveted Blue Flags this season, one more than last year. Hornsea has joined Scarborough North and Whitby and will fly the blue flag this bathing season.

In the future, the work of the Yorkshire Bathing Water Partnership is expected to secure more beach awards for the region.

Protecting raw water quality
The quality of the raw water that YW abstracts has been deteriorating in many catchments over the past two decades. This is a consequence of pollution, unsustainable land management practices and climate change.

YW invests in enhanced water treatment works capabilities to ensure customers always receive the highest quality drinking water. More about this is described in the Safe Water SBO section.

In parallel to investment at the water treatment works, issues need to be addressed at source. YW has a catchment management programme which is its primary long-term response. This covers a range of water quality parameters including colour, pesticides, nitrates and saline intrusion on reservoir, river and borehole sources. Peat moorlands are particularly important in the region because they are the source catchments for a large proportion of the drinking water.

In 2013, together with the EA, Natural England and the National Farmers Union YW is starting to establish a partnership approach to the development and implementation of Safeguard Zones and supporting Safeguard Zone Action Plans. These zones and plans are being established to better protect the catchment areas that influence the quality of water abstracted for drinking water purposes. YW also worked in partnership with the EA to develop plans for each of the seven Water Framework Management catchments in its region.

In December 2013 YW published its operational and investment plans for the period from 2015 to 2020. The plans were developed using a multi-agency approach and respond to recent investigations and modelling into the reasons for raw water quality failures.

In early 2014, YW's catchment manager joined Defra's Best Practice Burning Group to help them develop sustainable land management guidance and policy that will better protect and enhance UK uplands. YW is working with a range of relevant organisations including the Moorland Association, Natural England and the National Farmers Union.

YW's future moorland management programme will deliver investigation and implementation activities in the catchments where colour pollution is likely to overwhelm water treatment works capacity in the longer term. Nitrate and other pollutants that present risks to a number of YW's groundwater sources will be investigated.

Managing invasive species
Invasive species present increasing challenges to the land and water YW manages, and to its assets and operations. YW has drafted a policy on its approach to invasive species and are currently formalising this internally. The draft policy has been discussed with an independent Environmental Advisory Panel and received their support for the approach.

Actions have been included in the plan for 2015 to 2020 to manage invasive species. For example, working in partnership with others on projects to address riparian invasive species as part of wider river catchment management plans. This will involve landowners collaboratively working together on stretches of river to maximise the success of controlling problem species.

STRATEGIC BUSINESS OBJECTIVE – WATER EFFICIENT REGIONS

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

Measures of regulatory compliance	Target	Current year	Previous year
Water supply interruptions (hours per property served)	0.25	0.17	0.17
Total leakage (mega litres per day, Ml/d)	297	282	264
Security of supply index	100%	100%	100%

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

Measures of ambition to go beyond regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Trend
The company own use of water significantly reduced.	Baseline own water use and identify opportunities for savings (excluding leakage which is covered separately below).	Water use baselined and continue to develop understanding and approach.	
All of the company's own non-potable water requirements delivered with non-potable water.			
The company and its customers understand and drive efficient water use, with no impact on long-term income generation.	Domestic customer water efficiency saving 1.55 million litres per day (Ml/d) a year.	Domestic water reduction of 2.3Ml/d	
	Business customer water efficiency saving 4 Ml/d a year.	Business customer water reduction of 4.2Ml/d	
Achieve the company's Sustainable Economic Level of Leakage (SELL) for the period 2015-2020.	Maintain leakage level at 297MLD/year.	Achieved 282 Ml/d. This performance continues the long-term trend of improvement with annual fluctuations.	
	Reduce average night pressure by 1.5 metres compared to a baseline of 49.5 metres.	Average night pressure reduced by 0.2m and working to improve data accuracy.	
Sustainable catchment efficiency programmes rolled out across Yorkshire and areas of import/export understood.	Catchment efficiency targets set for all catchments.	Catchment efficiency targets being developed	
	All our abstraction understood.	Abstractions understood - comparing consent limits and historic water use	

The arrows show the trend of annual performance in the context of long-term goals. Further explanation is provided on page 2.

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

YW's performance in 2013/14 remained strong, with improvements on the length of time involved in supply interruptions, and maintained maximum possible performance on the industry measure for security of supply. YW has also shown strong performance against leakage and other water efficiency targets, which are discussed in the next sections.

The risk of water shortages or supply interruptions is a constant priority because of the consequences to customers, and to operations and finances. In 2013/14 a new Drought Plan, and the revised draft of a new Water Resources Management Plan (WRMP), were published. These plans confirm that climate change presents a growing threat to YW's ability to maintain the balance between supply and demand.

Water resources management is its most mature area of current resilience and future planning. YW has maximised the benefit of the good range and balance of water supply options in its region by developing infrastructure that allows water to be moved around the region to where it is needed. This is called the Yorkshire grid and it covers 99% of customers following completion of an extension to Scarborough in 2013. YW manages its grid to offer one of the most resilient water supply systems in the country.

The revised draft WRMP describes how YW will maintain the balance between water supply and demand over the next 25 years. This will be finalised in 2014 following further engagement with Defra. The latest version can be found at:
www.yorkshirewater.com/our-environment/water-resources/managing-water-resources.aspx

The YW Drought Plan contains a framework of options that allow a drought to be best managed dependent on conditions. In the event of a drought, advance planning enables YW to act quickly because its options have been assessed for their cost and environmental impact, and agreed with the EA. The YW Drought Plan can be found at:
www.yorkshirewater.com/our-environment/water-resources/drought-plan.aspx

In 2013, YW published its plans for the period from 2015 to 2020. These plans describe the operational and investment programme to manage water services. Activities will include increasing network storage and working on projects to manage network pressure. To respond to bursts and other network problems more effectively, YW will be enhancing its visibility of the network by installing a further 4,500 data loggers that automatically send data to YW's regional command centre every 30 minutes. Water efficiency is central to YW plans and is described below.

Reducing the company's own water use
Leakage is by far the dominant source of water waste. YW measures, reports and reduces leakage, of which about two thirds results from its distribution network and a third is from leaks in customers' supply pipes.

YW have almost halved leakage since 1995 and recorded its lowest ever levels in 2012/13, achieving 264.72 Ml/d. Leakage performance in 2012/13 was not economically sustainable so in 2013/14 YW continued to out-perform its regulatory target (297.1 Ml/d) by a substantial margin, with leakage of 282 Ml/d.

YW will be investing in further leakage reduction in the period from 2015 to 2020 as this is found to be the most cost and environmentally effective way to mitigate the growing deficit in the balance between water supply and demand. YW plans to reduce its leakage target by a further 10 Ml/d, from 297.1 to 287.1 Ml/d by 2020. YW will strive to out-perform this target and to continue finding ways to sustainably reduce leakage by focusing its operational resources and further innovation.

The many ways YW supports customers with their leaks and overall water efficiency is described in the section below.

Working with customers to save water
YW works hard to actively assist its domestic and business customers in valuing water and becoming water efficient. Its goal is to deliver tangible water efficiencies and sustainable behavioural change.

In 2013/14 YW provided more free water saving devices than ever before, nearly 128,000 devices, along with a range of advice and support services. It supported domestic customers to save 2.3 Ml/d, against a target of 2.1 Ml/d and business customers also saved 4.2 Ml/d against a target of 4Ml/d.

YW has achieved its water efficiency targets since it introduced them in 2010 and is committed to continuing to do so into the future. More information can be found on the water efficiency section of the website at:
http://www.yorkshirewater.com/save-water-and-money.aspx.

Reforming abstraction licences
The Water Act 2014 introduces new provisions to facilitate the creation of a national water supply network by making it easier for water companies to buy and sell water from each other.

YW has traded water with its neighbouring water companies for many years and considers such options as a standard part of its planning. YW has a notable import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. YW also exports a small amount of treated water to Anglian Water to support their needs.

YW continues to engage in the evolving national approach to abstraction licence reform.

STRATEGIC BUSINESS OBJECTIVE – SUSTAINABLE RESOURCES

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

Measures of regulatory compliance	Target	Current year	Previous year
Greenhouse gas emissions (kilotonnes of Carbon Dioxide equivalent, CO_2e)	373	357	386
*Satisfactory sludge disposal	100%	100%	97.72%

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

*Calendar year measure

Measures of ambition to go beyond regulatory duties			
5 year milestone	**2013/14 target**	**2013/14 performance**	**Trend**
A Sustainable Resources culture is embedded in the company's organisation.	100% of Kelda Group colleagues are engaged with energy awareness.	Virtually all colleagues engaged through internal CO_2llaborate campaign	↑
	7/10 in internal employee survey regarding Sustainable Resources.	Last Sustainable Resources score was 6.6	N/A
	20% reduction in head office energy use.	11% achieved and further plans in progress	↑
The company's approach to supply chain and waste is seen as sector leading.	Reduce total electricity consumption by 3% (2010-11 baseline).	Electricity consumption down 6% since 2010/11	↑
	100% contract renewals assessed against sustainability criteria.	The company continue to develop its sustainable contract framework	↑
	75% waste diverted from landfill, (excluding sewage sludge to landfill or land recycling).	90% waste diverted from landfill	↑
Partnerships established which have mutual benefits with regard to resources.	Deliver £150,000 of mutual benefit.	£285K income for YW and partnerships continue to develop	↑

The arrows show the trend of annual performance in the context of long-term goals. Further explanation is provided on page 2.

Reducing greenhouse gas emissions

YW has reduced its operational emissions by about 18% since 2008/09, despite numerous growth pressures. Success in achieving the Carbon Trust Standard and its predecessor the Energy Efficiency Accreditation Scheme has demonstrated its leading emissions reduction performance through an independent verification process.

YW has published details of its emissions every year since 2004, continually improving its approach each year. Since 2008 YW has also been required to report emissions to the regulator, Ofwat. Emissions for 2013/14 and the previous year are shown in the table below.

YW follows the agreed water industry approach to operational carbon accounting. This involves population of the Carbon Accounting Workbook (CAW), a spreadsheet tool for use across the water industry to measure and report emissions. UKWIR and WRc update and revise the CAW on a regular basis to improve the accuracy of emissions factors and ensure alignment with Ofwat and Defra reporting guidelines. YW is actively involved with each update and use the most recent version of the tool to compile its annual carbon footprint each year. 2013/14 emissions are calculated using CAW version 8.1, released in late 2013.

YW will continue to monitor and publish its operational emissions and use this data to prioritise its resources to deliver emissions reduction. YW will continue to develop its accounting methodologies for embodied emissions and how they are used to inform planning.

	2013/14	2012/13
Operational emissions – tonnes of carbon dioxide equivalent (tCO_2e)		
Scope 1 emissions tCO_2e	83,066	88,114
Scope 2 emissions tCO_2e	245,228	292,308
Scope 3 emissions tCO_2e	29,262	6,419
Total emissions tCO_2e	356,982	385,843
Intensity ratio – kilogrammes of carbon dioxide equivalent (CO_2e)		
Emissions per million litres of water served	264	285
Emissions per million litres of waste water treated	320	295

Scope 1 emissions are those directly released to atmosphere. Scope 1 emissions are released from: burning fossil fuels on YW's sites; driving company vehicles; and, releasing gasses during treatment processes.

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

Scope 3 emissions are other indirect emissions. For YW, items included are business travel on public transport and in private vehicles, activities from outsourced operators and emissions from the transmission and distribution of the grid electricity purchased.

Please note that there was a national change in accounting methodology in 2013/14, with emissions from electricity transmission and distribution now split between Scope 2 and Scope 3. This accounts for much of the increase in Scope 3 emissions between 2012/13 and 2013/14.

Please also note that Scope 1 to 3 emissions do not add up to Total emissions (356,982 tCO_2e) in the above table because the Scope 1, 2 and 3 figures are gross not net.

Reducing electricity consumption and costs

It takes a large amount of electricity to run an organisation as big as YW, approaching 600 GWh each year. YW electricity use results in approximately 75% of its operational emissions and it is one of its largest and most volatile operating costs.

YW responds to these business risks and opportunities by minimising the electricity it need and maximising its ability to generate its own electricity. This approach helps YW to reduce its emissions and keep costs low too.

YW has made great strides in recent years, successfully reducing its total electricity consumption by 6% since 2010/11. This follows many years of growth in electricity demand since privatisation, driven primarily by investment to meet new legislation for environmental water quality. This has been achieved this through a variety of approaches, including cost-effective capital investment, operational efficiencies and targeted training.

The energy used at the head office site in Bradford accounts for less than 1% of the company's total carbon footprint. However, in accommodating over half of YW's staff, and with regular visitors and guests, every effort is made to set an example in demand reduction and renewable energy culture. While the ambitious target for a 20% reduction in just one year was not achieved, consumption was reduced by an impressive 11%. Efforts continue.

YW has invested to create a substantial portfolio of renewable energy generation assets, mostly using sewage sludge to create low cost, low carbon energy. In 2013/14 two major investments were completed which dramatically increased the ability to generate renewable energy from sewage sludge. Bradford's waste water treatment works is now approaching being entirely self-sufficient for its substantial energy needs following over £30m of investment. Sheffield's waste water treatment works also has a new large self-generation capability, following an investment of £23m.

YW forecasts a sharp increase in its consumption and cost of electricity if it does not continue to act. This is caused by a range of factors, including national and global uncertainty in energy sources, the costs of replacing and decarbonising the UK's ageing energy infrastructure and ensuring compliance with new environmental water quality legislation. To mitigate this risk YW continues to plan to reduce its electricity demand and grow its ability to generate low carbon energy.

Creating a culture that helps to maximise efficiency and resilience
The Group is committed to ensuring that all colleagues have the right training and tools to allow them to make informed decisions and to understand their role in sustainable resource use which is lean and resilient.

In 2013/14 a new and bespoke web-based environmental awareness course was developed. It provides training on all of YW's environmental impacts, focusing on energy consumption and energy efficiency. So far over 1,500 (40%) of Kelda Group colleagues have completed the training.

A more detailed training programme has also been developed for those in the business who run and optimise YW's most energy intensive processes. This aims to provide the relevant colleagues with the skills and confidence necessary for them to drive real change and improvement in the business. The training is in the form of a series of modules that ultimately provide the colleagues with their 'energy passport' to work.

These are just two examples from the cultural change programme 'CO_2llaborate to use less'. Virtually every single colleague has received some form of carbon and energy engagement through the communications and training programme.

Turning waste into resource

As a company, YW recognises the need to reduce waste in all its forms, everything from unused construction materials and by-products of treatment processes, to lost time and avoidable travel. Much of what is thought of as waste can actually generate new value through reuse by the company or someone else – creating what is known as a circular economy. Minimising waste and turning it into new resource is essential to the business to help the company remain efficient, reduce its environmental impact, keep bills low for customers and provide returns for investors.

Sewage sludge is a large and renewable resource. Through a variety of innovative approaches YW is now able to generate renewable, low cost, low carbon energy from sewage sludge. After treating the sludge products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts are created.

After treating the sludge, products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts are created. During 2013 YW completed an action plan and improved performance to 100% compliance with sludge disposal regulations. The company forecasts to maintain compliance at 100% in 2014. Further details of the action taken to improve performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com.reports

Increasing the rates of recycling from offices, construction sites and operational sites has also been successful and in 2013/14 a target of almost 90% of diverting waste from landfill was achieved.

In 2013/14 YW also developed a plan to implement numerous opportunities to work in partnership to deliver mutual benefit. For example, in October 2013 YW established fat, oil and grease (FOG) collection facilities for domestic customers in a known sewer blockage hotspot in Bradford. By helping customers to use their sewers more appropriately, this reduces the need for avoidable sewer maintenance work and potential problems from sewer flooding and pollution while a third party can collect the energy rich material and create power as well as a financial return. This is a pilot trial at present with a view to developing a full scale operation.

Achieving SBO ambitions throughout the supply chain

Working with the best suppliers is vital to ensure that the Group can continue to improve its performance and provide a better service to customers. YW also recognises and manages a risk from interruptions to its supply chain. The ambition is for YW's global supply chain to share the company's commitment to the continuous improvement of the water environment and wider sustainable development.

In 2013 YW published its new sustainable supply chain policy. This applies across all of its supply chain activities and seeks to articulate a consistent approach with straight forward expectations. YW will work with its supply chain to ensure security of essential supplies and to continually reduce demand for depleting natural resources while enabling a cycle of social, economic and environmental improvements. YW expect that its supply chain partners will deliver a similar message within their own supply chains.

YW's sustainable supply chain policy can be found at:
http://www.yorkshirewater.com/about-us/supplying-us.aspx

Dependent on the nature of the contract, YW's current evaluation process will consider areas such as energy, resource efficiency, waste management, human rights, labour practices and legal compliance.

Environmental policy and governance

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

YW uses the Business in The Community (BiTC) Environment Index to help benchmark its environmental performance. YW increased its score to over 95% in 2013/14, reaching BiTC Platinum status.

Environmental performance is reported through the website which is regularly updated. This can be viewed at www.yorkshirewater.com/our-environment.aspx

STRATEGIC BUSINESS OBJECTIVE – STRONG FINANCIAL FOUNDATIONS

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

The financial performance of the Group is reviewed on pages 28 to 29.

Determining future prices and operational and investment plans

The UK water industry is closely regulated to protect society's interests. At the heart of the regulatory framework is a five yearly Price Review process that requires water companies to produce business plans detailing how they will achieve their legal requirements and customers' expectations. The plans are submitted to the industry's economic regulator, Ofwat, to determine limits on customer prices. Through these controls and requirements, the Price Review plays a fundamental role in shaping YW's financial foundations.

In December 2013 YW published its plans for the period from 2015 to 2020. This followed over two years of detailed consultation, investigation and assessment to inform what Yorkshire needs from its water and waste water services. YW developed a plan which aligns with customer priorities and reflects its aim to invest for a sustainable future while keeping bills affordable.

Between 2015 and 2020 YW plans to spend £3.8 billion to deliver the resilient services customers and stakeholders said that they need, and 95% of this expenditure relates to customer's highest priorities.

YW bills are already some of the lowest in the industry at £368 per annum for an average household customer in 2013/14. The plan is to keep bills low. In 2014/15 YW were allowed to increase prices by 1.6% above RPI. YW decided to cap this increase at RPI. This means in 2014/15 average household bills will reduce by £6 in real terms compared to what was allowed by Ofwat. It is proposed to continue this saving throughout the life of the plan meaning a total average household saving of £36 over six years.

In 2013/14 YW completed its biggest ever customer and stakeholder engagement campaign to inform the development of its business plan for the period from 2015 to 2020. Overall 77% of those asked supported YW's proposals. More is explained about this in the Trusted Company SBO section.

YW are currently making preparations to effectively deliver its plan, deliver the reduced prices, and deliver fair returns. The company is working with Ofwat to provide all the information they require to effectively determine future price limits. Ofwat will conclude the price preview process before the end of 2014.

YW believes it has provided robust plans that meet customer and legislative requirements, however there is a risk in that Ofwat is able to alter the plans which would have significant consequences for future operations, investments and financial performance.

You can find out full details of the customer engagement and the plans at: www.BlueprintForYorkshire.com.

Ensuring affordability and managing customer debt
YW customer bills are already some of the lowest in the country and the company is committed to doing everything it can to keep bills low. With that in mind, YW decided not to proceed with the planned 2014/15 price increase agreed with Ofwat in 2009 of RPI plus 1.6%, capping the increase at RPI.

As described above, this decision meant that from April 2014 the average household bill in Yorkshire stayed in line with the rate of inflation, with the average bill being £373, £6 lower than planned. In the new business plan, the proposal is to maintain this saving for customers through to 2020.

By becoming even more efficient and by reducing returns to investors YW can ensure bills stay in line with inflation while maintaining and enhancing the services provided to customers and the environment.

Non-recovery of customer debt is a risk. It may cause profitability to suffer in the short-term and increase cost to paying customers in the medium to long-term. Allowance is made by Ofwat in the price limits at each Price Review for a proportion of debt deemed to be irrecoverable. To mitigate this risk, YW operates a range of schemes designed to help customers who genuinely cannot pay their bills while having strong processes in place for overall debt collection.

During 2013/14 YW were offering more debt support to more people than ever before through a range of assistance packages. New innovative agreements with credit reference agencies are helping us to better target those in most need.

The Resolve scheme is just one of the many support arrangements offered customers. This scheme provides customers with an opportunity to clear their debt by maintaining a payment arrangement which will result in the company making a corresponding write-off of the remaining arrears. To qualify customers must have arrears of at least £500 and have a low income.

In 2014/15 YW will introduce a new affordability scheme where it will proactively seek to identify vulnerable customers and help them before they get into debt.

Preparing for increasing competition in the water industry
The Water Act 2014 received Royal Assent in May 2014. The Act includes a range of important measures for the water sector. It will introduce greater freedom for businesses, charities and public sector customers in England to choose their water supplier. This will connect with an existing retail market in Scotland. This presents both opportunities and threats to YW's business and YW is watching developments closely as it continues to develop its position.

Increasing retail competition will make the Competition Act increasingly relevant to YW's business and the wider water industry. YW will need to introduce separation between its business retail activities and the rest of the business and it will be implementing the necessary preparations and controls to ensure compliance and fair trading practices.

The Water Act will also introduce measures to facilitate water trading. YW continues to engage in the evolving national approach to abstraction licence reform and the trading and movement of water nationally.

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

In 2013/14 YW has continued to closely govern the effective delivery of the capital programme. A Board Capital Investment Committee (BCIC) with delegated power from the board, monitors the capital programme delivery and provides strategic direction.

If YW were unable to deliver its capital investment programme at expected expenditure levels, were unable to secure the expected level of efficiency savings, or the programme fell behind schedule, profitability may suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future Price Reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. The 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.

Governing borrowing requirements
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.

The Group uses a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance its operations. Any funding required is raised by the Group treasury department in the name of the appropriate company, operating within the debt covenants. Subject to the restrictions required by the Whole Business Securitisation that applies to Yorkshire Water, 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.

Managing financial risk
The executive team (Kelda Management Team, 'KMT') receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

The operation of the treasury function is governed by policies and procedures, which set out guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within YW's financial control procedures.

The Group's operations expose it 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 Group actively maintains a broad portfolio of debt, diversified by source and maturity and designed to ensure the Group has sufficient available funds for operations.

The Group is exposed to commodity price risk, especially energy price risk, as a result of its operations. The Group aims 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.

The insurance team work to ensure that the Group manages and mitigates its exposure to costs from public liabilities and damage to its assets.

Managing changes in the rate of inflation
Turnover is linked to the underlying rate of inflation (measured by RPI) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are likely to impact on YW's operating costs and capital expenditure, and on customers' ability to pay any increased charges.

To mitigate this risk YW maintains levels of index linked debt and swaps, therefore, as RPI reduces and income reduces, the interest charge will also reduce.

Managing changes in the Construction Output Prices Index
Under the 2009 Final Determination from Ofwat, the allowed annual capital expenditure was indexed using the Construction Output Prices Index ("COPI"). There is a risk that the actual costs of capital investment in the current investment period (2010 – 2015) will be higher than the ex-post COPI-adjusted allowed capital expenditure, resulting in a revenue penalty applied by Ofwat in the Price Review process for the next investment period (2015 – 2020). This may arise where contract conditions do not allow for index tracking (e.g. fixed cost contracts or contracts which are linked to RPI).

To mitigate this risk, where possible, construction contracts have been linked to COPI. Additionally YW's target level of gearing is adjusted to reflect any movements in COPI compared to RPI to eliminate any impact on RCV in the subsequent price control period.

FINANCIAL PERFORMANCE

Key financial performance indicators

	Year ended 31 March 2014	Period ended 31 March 2013
	£m	£m
Operating profit from continuing operations	**340.2**	241.7
EBITDA	**575.1**	412.7

Operating profit is disclosed in the income statement on page 44.

Operating results for the year

The result for the period shows an operating profit from continuing operations of £340.2m (2013: £241.7m), which is principally generated by Yorkshire Water's regulated water business.

Exceptional finance income/(costs) for the year

Exceptional finance income/(costs) comprise the following:

	Year ended 31 March 2014 £m	Period ended 31 March 2013 £m
Included in finance income/(costs):		
Movement on fair value of index linked swaps	**298.2**	(292.3)
Movement on fair value of finance lease interest rate swaps	**5.9**	(0.8)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(0.3)**	(1.8)
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**(5.2)**	(2.2)
	298.6	(297.1)

IFRS 13 'Fair Value Measurement' has been applied with effect from 1 April 2013. Included in finance income and costs are fair value gains totalling £87.8m, which relates to the impact of incorporating own credit risk within the fair value of the derivative financial instruments. Own credit risk is calculated based on a comparison of the Groups ten year credit default swap values to their risk free or sovereign equivalents. This gain reflects the cumulative impact of changes in the Group's credit risk since executing these derivative financial instruments.

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 on a fair value basis, which at 31 March 2014 resulted in a £1,446.4m provision (2013: £1,729.0m). Of the year on year movement of £282.6m, a charge of £15.6m relating to RPI accretion has been recognised within finance costs and a credit of £298.2m (2013: £292.3m charge) has been recognised as an exceptional finance income. 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 Yorkshire Water 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 2014 resulted in a £15.7m loss (2013: £21.6m). The movement during the year of £5.9m has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow it to be held in reserves were not met. The interest charged or credited to the income statement in relation to these swaps is shown in note 6 of the financial statements.

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 were taken out during 2011/12 by Yorkshire Water and have been valued at the reporting date at fair value as the criteria for hedge accounting have been met. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £0.3m (2013: £1.8m) charge to the income statement.

Exceptional finance costs also include the fair value movement of fixed to floating interest rate swaps that were nominated as fair value through profit and loss on inception. The fixed to floating interest rate swaps were taken out by the Group during the period and have been valued at the reporting date at fair value as the criteria for hedge accounting have been met. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £5.2m (2013: £2.2m) charge to the income statement.

Capital structure

In June 2012 Kelda Finance (No. 2) Limited entered into a new £260m bank facility; £150m with a term of three years and £110m with a term of five years. The proceeds from this new facility were lent to Kelda Holdco Limited (a fellow subsidiary of Kelda Eurobond Co Limited) to enable it to repay the remaining balance on its external loan facility.

In August 2012, Yorkshire Water Services Bradford Finance Limited raised a £250m Class A bond with a maturity of seventeen years, with the proceeds being lent to Yorkshire Water Services Limited. In addition, in October 2012, Yorkshire Water extended the term of its £490m working capital and revolving credit facilities by a year to October 2017.

In February 2013, Kelda Finance (No.3) PLC raised a £200m high yield bond with a maturity of seven years. The proceeds were lent to Kelda Finance (No.2) Limited to enable it to repay all of the three year bank facility referred to above and a part of the five year facility.

Accounting policies

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

The Strategic Report was approved by the board of directors on 14 July 2014 and signed on its behalf by:

Richard Flint
Chief Executive
14 July 2014

The directors present their report and the audited consolidated financial statements for the Group for the year ended 31 March 2014. The Directors' Report should be read in conjunction with the Strategic Report.

Financial results for the year

The profit for the year was £476.0m (period ended 31 March 2013: £104.2m loss). Kelda Finance (No. 1) Limited (the Company) paid £155.3m (period ended 31 March 2013: £236.7m) of cash dividends. During the period ended 31 March 2013 the Company paid £260.0m of other dividends to its parent company, Kelda Group Limited.

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.

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
Stuart McFarlane

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.

Richard Flint. Appointed to the board on 25 June 2012. He was appointed as group chief executive to the board of the parent company Kelda Holdings Limited in March 2010. Richard was appointed as chief operating officer of Yorkshire Water in September 2008. He was director of the water business unit from 2003. Previously, he held a number of senior operational positions in Yorkshire Water.

Liz Barber. Appointed to the board on 25 June 2012. Appointed as group finance and regulation director to the board of Kelda Holdings Limited in November 2010. Liz joined the Kelda Group from Ernst & Young where she held a number of senior roles, including leading the firm's national water team and the assurance practice across the North of England. She had been with Ernst & Young since 1987 and in that time worked with a number of water companies and the regulators in England, Wales and Scotland.

Stuart McFarlane. Appointed to the board on 25 June 2012. Stuart joined Yorkshire Water in 1989 as a lawyer and was appointed head of legal services in 1994. Stuart became group company secretary in April 2007.

Research and development

The Group undertakes a programme of research in pursuit of improvements in service and operating efficiency. During the year, £8.7m was committed to research and development, including £8.4m on non-current assets.

Valuation of assets

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

Certain categories of the Group's land and buildings were valued by independent qualified valuers in March 2014. 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.

Further details are provided in note 10 to the financial statements.

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

Diversity and human rights

The Group recognises the strength of a diverse workforce that represents the society which it serves.

The Group is working to ensure a gender balanced workplace and is actively engaged in internal and external programmes to redress their gender the gender imbalance. Below is a gender breakdown for YW. Figures show the total number of employees on 31 March 2014.

	Number of employees	
	Male	Female
Directors	7	4
Senior managers	24	5
Total employees	1,818	558

The Group policy on human rights recognises international human rights as set out in the International Bill of Human Rights, and the principles described in the UN Global Compact. The policy was approved as a Kelda Group policy in 2013 and can be found at: http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf.

The successful implementation of the Human Rights Policy is heavily influenced by the cooperation and support of the supply chains. Accordingly, the Group actively manages and monitors the supply chains to ensure working practices are consistent with the policy.

Employees and employment policies

The Group continues to strive to create a positive working environment for all colleagues and in developing open and trusted relationships. The Group values colleague involvement and engagement at all levels, recognising that everyone in the business has a contribution to make and is a potential source of innovation and change. The Group Values set the framework for how colleagues and partners are expected to behave with each other, with customers and with external stakeholders.

Great communications lie at the heart of engaging with colleagues. The Group recognises the need for, and benefits of, providing employees with information on matters of concern to them as employees, and doing so in a planned manner, using a range of channels. The Group intranet ensures that all employees have access to key information in a consistent manner. In addition there is a continued emphasis on a 'face to face first' approach and two-way channels, including regular 'Team Talks' and 'Talk Back' sessions with line managers and the directors. Business plan cascades take place at the beginning of each year, with common information available to all colleagues and more detailed business unit information available by function, for discussion in teams. Further updates are provided throughout the year so that colleagues are kept informed about factors of an economic and financial nature which impact on Group performance. At a very local level, team "hub" meetings provide the opportunity for around 900 operational employees to talk about team performance and problem resolution on a regular basis, in person with each other. Quarterly employee surveys are undertaken throughout the Group, using an online survey – "Post Your Views". 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, the Group demonstrates its commitment to effective and two way communication through its information and consultation framework. Collection 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. At these meetings performance information is shared, discusses health and safety issues are discussed as well as providing an opportunity for two-way face to face dialogue in which employees views can be sought and then taken into account in making decisions which affect them.

The Group is committed to providing a diverse and inclusive working environment which reflects its customer base. This is integral to the delivery of the Strategic Business Objectives and Vision: taking responsibility for the water environment for good. The Group's diversity and inclusion policy promotes equality of opportunity for all employees and stakeholders, ensuring that discrimination of all forms is avoided, including but not limited to discrimination on the grounds of: gender; pregnancy; age; race; colour;

nationality; ethnic and national origin; sexuality/sexual orientation; religion and belief; disability; marital status; membership of a trade union; part-time or fixed term employee status. In all areas of employment, including recruitment, training, career development and promotion, the Group does not treat less favourably any applicant for employment or current employee by conditions or requirements which cannot be justified. Throughout 2013/14 a director-sponsored Diversity and Inclusion Working Group actively drove Diversity and Inclusion matters, with a remit to ensure that the Diversity and Inclusion Policy is reviewed regularly and properly integrated in the business. By ensuring that diversity and inclusion principles underpin all of the Group's work and the services provided, the Group is supported in maintaining sector leading performance.

The Group aims to attract, select, develop and retain the best talent to meet the needs of the business at all times. There is a strong commitment to understanding future skills requirements and ensuring that plans are in place to meet the Group's evolving needs. Particular emphasis is to be given to developing the pipeline of technical talent and to responding to key developments within the industry that will create the need for the acquisition and development of new skills not previously recruited. The Group's approach to talent management is fully inclusive and creates a framework to discuss aspirations, skills and development needs at all levels. This activity will be developed further in the coming months and years with the aim of retaining critical skills within the organisation, by enabling greater progression of talent internally.

The Group places great emphasis on enhancing business performance by maximising individual, team and organisational capability through the development of safety, technical, behavioural and leadership skills. Leadership skills are recognised and developed using the Group's Responsible Leader framework which focuses on Knowing the World of Water; Operational Excellence; and Personal Leadership. A wide range of development tools are provided, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. An example of a current tool being used is the MySkills framework, which has already assessed the competencies required in over 30 key roles to ensure that the Group builds appropriate development programmes and better understands capability gaps.

The largest recent learning and development investment is in the delivery of H&S training to ensure colleagues are safe and capable in performing in their role. The Group has a diverse range of H&S programmes including managing dangerous substances, fire safety and electrical and mechanical H&S. Strong partnerships across the business have been built to design some technical training solutions, including a unique industry first for the CO_2llaborate Energy Optimisation Programme, to improve the skills of about 600 colleagues. This will play an important contribution in reducing energy consumption and associated financial and environmental costs.

The Group recognises the challenges of delivering quality training quickly and cost effectively across the region, and also being able to demonstrate improvement in competence rather than just attending training. To meet this challenge the Group has invested in an eLearning platform that will increase the access of learning and development across the Group.

As well as developing a talent management culture to help drive business success, the Group has several resourcing solutions which are well regarded. The Group's award winning graduate recruitment programme has a strong reputation and has been recognised at both regional and national levels. In 2011 and 2012 YW was named as the graduate employer of choice in the private sector in Yorkshire. In addition, the Guardian newspaper named YW in its Top 10 Graduate Employers for Energy and Utilities for the past three consecutive years following its biggest ever survey of UK graduates. YW's apprentice training scheme is also well established. Launched in 2010, the scheme currently has 58 apprentices in various areas of the business. Current plans will increase that number further in 2015.

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.

The drive for continual improvement is supported by an Occupational Health & Safety Management System (OHSMS). This enables the Group to enhance its health and safety performance and to maintain a clear focus on meeting the needs of its people, stakeholders, customers and members of the public. This is at the heart of the Group's approach.

The Group:

- complies with duties under the Health and Safety at Work etc. Act 1974 and all other relevant legislation, and where reasonably practicable seeks to exceed legislative requirements;
- thoroughly identifies hazards and risks and implements appropriate and effective controls to eliminate or reduce them. Nothing is so important that time cannot be taken to do it safely;
- ensures the competence of all employees by providing suitable training, monitoring, supervision and leadership to ensure that the Group's OH&S policies and procedures are complied with and standards are maintained;
- ensures the competence of all suppliers, partners and contractors who work on behalf of the Group by assessing and monitoring their OH&S management systems and performance;
- ensures that wherever and whenever internal or external colleagues are at work that the risks to their health and safety are managed down to a level as low as is reasonably practicable. This will also apply to members of the public visiting areas of rural estates that are open to public access;
- manages all business, activities, operations and assets in a manner which seeks to eliminate injuries, incidents and ill health and minimise any consequences that might arise in the event of any incident;
- Continually reviews, challenges and sets OH&S objectives and performance through the business planning cycle; and
- Aims to meet all of the above promises at an affordable cost.

The OHSMS is designed to be compliant with the standards and expectations of OHSAS18001 and also the HSE's HSG65. It consists of an integrated framework linking the following key system elements:

- clear understanding of and compliance with applicable health and safety legislation;
- concise corporate policy statement outlining the commitment to continually improve;
- clear management standards to provide governance and assurance that risk controls are identified, established and effective;
- detailed management procedures to address specific legislative and business risks;
- continual risk identification, assessment and escalation processes from task / activity risk through to corporate strategic risk;
- 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 such as EMS, QMS etc.; and
- performance evaluation of the system in action through KPI measurement, inspection and audit and continual improvement through management review and corrective action.

In essence, the management system is a Plan – Do – Check – Act continuous improvement cycle and is underpinned by the following principles:

- strong and active leadership from the top down – visible, active commitment; effective 'downward' communications systems and management structures and integration of good health and safety management with business decisions.
- employee engagement and involvement – promoting safe and health conditions, effective 'upward' communication and providing high quality training.
- assessment and review – identifying and managing health and safety risks; accessing and following competent advice and monitoring, reporting and reviewing performance.

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 £16,000 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 the financial statements section under note 19.

Future developments

Future events are dealt with on pages 1 to 30 in the Strategic Report.

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 £650.3m (2013: £657.3m) 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 accounts give a true and fair view of the assets, liabilities, financial position and profit of the Company: and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company, 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). 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; and
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively.

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.

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 Director’s Report in respect of the year ended 31 March 2014;

(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.

By order of the Board

Stuart McFarlane
Director
14 July 2014

Company secretary: Stuart McFarlane

Registered address:
Western House
Halifax Road
Bradford
BD6 2SZ

Corporate governance

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 seven meetings during the period.

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

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

	Board
Liz Barber	4/4
Richard Flint	4/4
Stuart McFarlane	4/4

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 main risks facing the Group are identified and recorded in a strategic risk register together with the control mechanisms applicable to each risk. These are collated from risk registers maintained by individual business units. 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;
- Anthony Rabin as the chairman of the YW audit committee reports to the Yorkshire Water Services Ltd 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.

The committee may at its discretion also review specific risks and the systems, controls and resources in place to manage these risks.

During the reporting year, the YW 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 Company. 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 committees; an extensive budget and target-setting process; a quarterly reporting and forecasting process reviewing performance against agreed objectives; appropriate delegated authority levels; established financial policies and procedures; and other risk management policies and procedures such as health and safety and environmental policies.

The directors present their annual report and the audited consolidated financial statements for the Group for the year ended 31 March 2014.

Business review

A review of the development and performance of the business of the Group, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 1 to 30.

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.

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

Report on the Group financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Group financial statements (the "financial statements"), which are prepared by Kelda Finance (No. 1) Limited, comprise:

- the Group balance sheet as at 31 March 2014;
- the Group income statement and Group statement of comprehensive income/(loss) 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 Group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the annual report and financial statements (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.

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

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 information and explanations received

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

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on pages 38 and 39, 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 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.

Other matters

We have reported separately on the Company financial statements of Kelda Finance (No. 1) Limited for the year ended 31 March 2014.

R Bunter

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2014

Kelda Finance (No. 1) Limited
Group income statement
for the year ended 31 March 2014

	Note	**Year ended 31 March 2014 £m**	Period ended 31 March 2013 £m
Revenue		**976.7**	716.7
Operating costs	3	**(636.5)**	(475.0)
Operating profit from continuing operations		**340.2**	241.7
Finance income before exceptional items	6	**81.7**	63.1
Exceptional finance income	4	**304.1**	-
Total finance income		**385.8**	63.1
Finance costs before exceptional items	6	**(264.2)**	(194.3)
Exceptional finance costs	4	**(5.5)**	(297.1)
Total finance income costs		**(269.7)**	(491.4)
Profit/(loss) from continuing operations before taxation		**456.3**	(186.6)
Tax credit	7	**19.7**	82.4
Profit/(loss) attributable to owners of the parent		**476.0**	(104.2)

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

Kelda Finance (No. 1) Limited
Group statement of comprehensive income/(loss)
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Profit/(loss) for the year		**476.0**	(104.2)
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of land and buildings:			
Gains on revaluation of land and buildings before taxation	12	**17.2**	-
Taxation	8	**(3.4)**	-
		13.8	-
Items that may be subsequently reclassified to profit or loss:			
Taxation on other items taken directly to comprehensive income/(loss)	8	**39.5**	17.3
Other comprehensive income/(loss) for the year, net of tax		**53.3**	17.3
Total comprehensive income/(loss) for the year		**529.3**	(86.9)

Kelda Finance (No. 1) Limited
Group balance sheet
as at 31 March 2014

	Note	2014 £m	2013 £m
Non-current assets			
Intangible assets	9	**14.2**	14.2
Property, plant and equipment	10	**6,471.8**	6,322.4
Financial assets	19	**-**	19.0
Trade and other receivables	12	**1,265.0**	1,273.3
		7,751.0	7,628.9
Current assets			
Inventories	11	**0.8**	1.1
Trade and other receivables	12	**185.7**	179.1
Cash and cash equivalents	13	**30.2**	38.9
		216.7	219.1
Total assets		**7,967.7**	7,848.0
Current liabilities			
Trade and other payables	14	**(459.8)**	(466.6)
Tax liabilities		**(4.0)**	(13.1)
Borrowings	13	**(285.5)**	(273.8)
Financial liabilities		**(5.7)**	-
Deferred grants and contributions on depreciated assets		**(2.8)**	(2.9)
		(757.8)	(756.4)
Non-current liabilities			
Borrowings	13	**(4,481.4)**	(4,433.4)
Trade and other payables	14	**(44.3)**	(50.9)
Financial liabilities	19	**(1,415.1)**	(1,665.8)
Deferred grants and contributions on depreciated assets		**(50.9)**	(53.1)
Provisions for other liabilities and charges	15	**(0.7)**	(0.6)
Deferred income tax liabilities	16	**(493.3)**	(537.8)
		(6,485.7)	(6,741.6)
Total liabilities		**(7,243.5)**	(7,498.0)
Net assets		**724.2**	350.0
Equity attributable to owners of the parent			
Ordinary shares	18	**-**	-
Hedging reserve		**(13.2)**	(13.2)
Revaluation reserve		**13.8**	1,013.7
Retained earnings/(accumulated losses)		**723.6**	(650.5)
Total equity		**724.2**	350.0

The financial statements on pages 44 to 90 were approved by the board of directors on 14 July 2014 and signed on their behalf by:

Stuart McFarlane
Director

Registered Number: 08066326

Kelda Finance (No. 1) Limited
Group statement of changes in equity
for the year ended 31 March 2014

	Note	**Ordinary shares £m**	**Share premium £m**	**Hedging reserve £m**	**Revaluation reserve £m**	**Retained earnings/ (accumulated losses) £m**	**Total equity £m**
On incorporation		-	-	-	-	-	-
Shares issued		-	778.4	-	-	-	778.4
Reduction in capital		-	(778.4)	-	-	778.4	-
On acquisition of subsidiaries		-	-	(13.2)	1,014.4	(845.5)	155.7
Loss for the period		-	-	-	-	(104.2)	(104.2)
Dividends paid	8	-	-	-	-	(496.7)	(496.7)
Credit to income statement for surplus depreciation due to revaluation		-	-	-	(18.0)	18.0	-
Other movements		-	-	-	-	(0.5)	(0.5)
Total included in the Group statement of comprehensive income		-	-	-	17.3	-	17.3
At 1 April 2013		-	-	(13.2)	1,013.7	(650.5)	350.0
Profit for the year		-	-	-	-	476.0	476.0
Dividends paid	8	-	-	-	-	(155.3)	(155.3)
Reduction of capital		-	-	-	(1,013.7)	1,013.7	-
Other movements		-	-	-		0.2	0.2
Total included in the Group statement of comprehensive income		-	-	-	13.8	39.5	53.3
At 31 March 2014		**-**	**-**	**(13.2)**	**13.8**	**723.6**	**724.2**

A reduction in capital of a subsidiary in the year ended 31 March 2014 resulted in the transfer of £1,013.7m of the revaluation reserve above to accumulated losses. Had there been no transfer made, the carrying value of the revaluation reserve at 31 March 2014 would be £1,043.4m (2013: £1,013.7m). The revaluation surplus is classified as fully distributable to the owners of the parent.

Kelda Finance (No. 1) Limited
Group cash flow statement
for the year ended 31 March 2014

	Note	**2014 £m**	2013 £m
Cash flows from operating activities	21	**586.2**	405.1
Income taxes received		**2.5**	4.0
Interest paid		**(241.2)**	(169.0)
Net cash generated from operating activities		**347.5**	240.1
Cash flows from investing activities			
Interest received		**78.5**	88.0
Proceeds on disposals of property, plant and equipment		**7.1**	0.5
Purchases of property, plant and equipment		**(375.5)**	(285.1)
Capital grants and contributions		**11.9**	9.8
Net cash used in investing activities		**(278.0)**	(186.8)
Cash flows from financing activities			
Dividends paid	8	**(155.3)**	(236.7)
Borrowings raised (net of fees)		**129.8**	449.1
Repayments of borrowings		**(44.5)**	(259.1)
Repayment of obligations under finance leases and hire purchase agreements		**(8.2)**	(20.2)
Net cash used in financing activities		**(78.2)**	(66.9)
Net decrease in cash and cash equivalents		**(8.7)**	(13.6)
Cash and cash equivalents at the beginning of the year / period		**38.9**	-
Cash and cash equivalents in subsidiary on acquisition		**-**	52.5
Cash and cash equivalents at the end of the year / period	13	**30.2**	38.9

1. Authorisation of financial statements

The Group's financial statements for the year ended 31 March 2014 were authorised for issue by the board of directors on 14 July 2014 and the balance sheet was signed on the board's behalf by Liz Barber, Director of Finance and Regulation. 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 periods 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 2014.

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 page 57.

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.

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.

2. Accounting policies (continued)

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.

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

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 payment of the dividend.

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.

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.

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2. Accounting policies (continued)

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:

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

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

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

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.

2. Accounting policies (continued)

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.

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.

2. Accounting policies (continued)

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.

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.

2. Accounting policies (continued)

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 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.

(b) Equity settled share based payments
Previously, Kelda Group Limited operated a savings related share option scheme under which options were granted to employees of Yorkshire Water. The fair value of options granted in exchange for employee services rendered was recognised as an expense in the income statement with a corresponding credit to equity.

The total amount expensed over the vesting period was determined by the fair value of the option at the date of the grant. The fair value of the option calculated was determined by use of mathematical modelling including the Black Scholes option pricing model.

The Group re-assesses its estimate of the number of options that are expected to become exercisable at each balance sheet date. Any adjustments to the original estimates are recognised in the income

2. Accounting policies (continued)

statement. No expense is recognised for awards that did not ultimately vest, except for awards where vesting was conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition was satisfied, provided that all other performance conditions are satisfied. The scheme was closed following the acquisition of Kelda Group Limited by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity with members choosing whether to continue contributing. For any member who has taken that option, charges to the income statement will continue until the maturity of the scheme. For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme.

Share capital
Ordinary shares are classified as equity.

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.

2. Accounting policies (continued)

Principal areas of judgement

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

- Property, plant and equipment

The Group's accounting policy for property, plant and equipment (PPE) is detailed on page 52 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. 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. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

- 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 2014 current trade receivables were £116.2m (2013: £107.5m) before provision for impairments.

- Taxation

The corporation tax provision of £4.0m (2013: £13.1m) reflects management's estimation of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed by Her Majesty's Revenue and Customs (HMRC).

2. Accounting policies (continued)

New standards and interpretations

The following standards have been adopted by the Group for the first time for the financial year beginning 1 April 2013 and have a material impact on the Group:

- IFRS 13 'Fair value measurements', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. Application of this standard by the Group has resulted in a £87.8m credit to finance income/(costs) as disclosed in note 4.

The following standards have been adopted by the Group for the first time for the financial year beginning 1 April 2013 and do not have a material impact on the Group:

- Amendment to IAS 1 'Financial statement presentation' regarding other comprehensive income.
- IAS 19 'Employee benefits' (revised) regarding recognition of past service costs, replacement of interest cost and expected return on plan assets.

The following standards, interpretations and amendments to existing standards are effective for annual periods starting on or after 1 January 2014 and have not been early adopted by the Group:

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

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

- Amendment to IAS 19 'Employee benefits'
- Amendments to IFRS 9 'Financial instruments – regarding general hedge accounting'
- IFRS 9 'Financial instruments – classification and measurement'
- Amendment to IFRS 7 'Financial instruments disclosures – offsetting financial assets and liabilities'
- IFRS 14 'Regulatory deferral accounts'

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

3. Total operating costs

	2014 £m	2013 £m
Own work capitalised	**(36.0)**	(30.2)
Raw materials and consumables	**30.0**	22.8
Other external charges	**280.2**	214.9
Staff costs (note 5)	**110.3**	86.1
Depreciation of property, plant and equipment (note 10)		
On owned assets		
- UK infrastructure	**58.0**	41.3
- other assets	**170.7**	130.5
On assets held under finance lease		
- UK infrastructure	**1.4**	-
- other assets	**7.7**	2.1
Operating lease rentals - minimum lease payments		
- plant and equipment	**2.2**	1.3
- other	**1.4**	1.4
Amortisation of grants and contributions	**(2.9)**	(2.9)
Research and development	**0.3**	0.5
Movement of fair value of energy contracts (note 19)	**6.4**	-
Impairment of trade receivables	**18.4**	11.9
Profit on disposal of property, plant and equipment	**(5.9)**	-
Other operating income	**(5.7)**	(4.7)
	636.5	475.0

Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding exceptional items, as quoted in the key financial performance indicators of the Group on page 28, is calculated as follows:

	2014 £m	2013 £m
Group operating profit from continuing operations	**340.2**	241.7
Add back depreciation and amortisation of capital grants (as above)	**234.9**	171.0
EBITDA	**575.1**	412.7

Auditors' remuneration

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

	2014 £m	2013 £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	**0.1**	0.1
	0.3	0.3

4. Exceptional finance income/(costs)

Exceptional items comprise:

	2014	2013
	£m	£m
Included in finance income		
Movement of fair value of index linked swaps	**298.2**	-
Movement of fair value of finance lease interest rate swaps	**5.9**	-
	304.1	-
Included in finance costs		
Movement of fair value of index linked swaps	**-**	(292.3)
Movement of fair value of finance lease interest rate swaps	**-**	(0.8)
Movement of fair value of combined cross currency interest rate swaps and associated bonds	**(0.3)**	(1.8)
Movement of fair value of fixed to floating interest rate swaps and associated bonds	**(5.2)**	(2.2)
	(5.5)	(297.1)

IFRS 13 'Fair Value Measurement' has been applied with effect from 1 April 2013. Included in finance income and costs are fair value gains totalling £87.8m, which relates to the impact of incorporating own credit risk within the fair value of the derivative financial instruments. Own credit risk is calculated based on a comparison of the Group's ten year credit default swap values to their risk free or sovereign equivalents. This gain reflects a cumulative impact changes in the Group's credit risk since executing these derivative financial instruments.

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 2014 resulted in a £1,446.4m provision (2013: £1,729.0m). Of the year on year movement of £282.6m, a charge of £15.6m relating to RPI accretion has been recognised within finance costs and a credit of £298.2m (2013: £292.3m charge) has been recognised as an exceptional finance income. 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. Of the £298.2m credit disclosed above, £85.6m arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

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 2014 resulted in a £15.7m liability (2013: £21.6m). The year on year decrease of the liability of £5.9m (2013: £0.8m increase) has been recognised as an exceptional finance income. 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. Of the £5.9m exceptional finance income, £0.6m arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014. The interest charged or credited to the income statement in relation to these swaps is shown in note 6.

4. Exceptional finance income/(costs) (continued)

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 2014. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £0.3m charge (2013: £2.8m) to the income statement. Included in the £0.3m above is a charge of £0.9m relating to the fair value movement of the cross currency swaps and associated bonds and a credit of £0.6m that arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014. Exceptional finance costs also include the fair value movement of fixed to floating interest rate swaps that were nominated as fair value through profit and loss on inception. The fixed to floating interest rate swaps were taken out by the Group during the year and have been valued at the reporting date at fair value as the criteria for hedge accounting have been met. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2014. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £5.2m (2013: £2.2m) charge to the income statement, which includes a credit of £1.0m that arises as a result of the application of IFRS 13 'Fair value measurement' for the first time in the year ended 31 March 2014.

5. Directors and employees

Average monthly number of people employed by the Group	**2014 Number**	2013 Number
UK regulated water services	**2,415**	2,496

	2014 £m	2013 £m
Total employment costs:		
Wages and salaries	**78.6**	59.2
Social security costs	**7.2**	5.6
Other pension costs	**24.5**	21.3
	110.3	86.1

Directors' emoluments

	2014 £m	2013 £m
Aggregate emoluments	**1.9**	1.6
Employer contributions to money purchase pension schemes	**0.1**	0.1
	2.0	1.7

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

	2014 £m	2013 £m
Aggregate emoluments	**1.1**	0.9

5. Directors and employees (continued)

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

During the year, two (2013: two) directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2013/14 was £0.1m (2013: £0.1m). No directors exercised any share options during the year or prior period.

6. Finance income and finance costs

	Year ended 31 March 2014 £m	Period ended 31 March 2013 £m
Finance income		
Interest receivable on bank deposits	**0.2**	0.1
Interest receivable from index linked swaps	**7.8**	9.6
Interest receivable from cross currency interest rate swaps	**11.6**	2.8
Interest receivable on loans to Group companies	**62.1**	50.6
Total finance income	**81.7**	63.1
Finance costs		
Interest payable on guaranteed bonds	**195.6**	121.6
Interest payable on US Dollar bonds	**11.5**	8.5
Interest payable on AUS Dollar bonds	**1.6**	-
Amortisation of issue costs in respect of bonds	**1.1**	0.4
Total finance costs for bonds	**209.8**	130.5
Bank loans and overdrafts	**16.2**	13.9
Bank loans under Kelda Finance facility	**2.9**	7.6
Interest payable on index linked swaps	**55.1**	52.7
Finance leases	**7.1**	6.7
Commitment fees and miscellaneous interest	**3.7**	1.4
Total finance costs before capitalisation of interest	**294.8**	212.8
Interest capitalised	**(30.6)**	(18.5)
Total finance costs net of interest capitalised	**264.2**	194.3

For more information on guaranteed and US Dollar bonds refer to note 13.

7. Tax credit

	2014 £m	2013 £m
Current tax		
UK corporation tax at 23% (2013: 24%)	**0.3**	0.6
Adjustments in respect of prior periods	**(11.6)**	(3.6)
Total current tax from continuing operations	**(11.3)**	(3.0)
Deferred tax		
UK charge for temporary differences arising and reversing in the year/period	**76.3**	(64.3)
Effect of change in tax rates	**(36.1)**	(6.5)
Adjustments in respect of prior periods	**(48.6)**	(8.6)
Total deferred tax on continuing activities (note 16)	**(8.4)**	(79.4)
Total tax credit on loss from ordinary activities	**(19.7)**	(82.4)

	2014 £m	2013 £m
Tax relating to items credited to equity		
Deferred tax:		
Effect of change in rate of deferred tax on revaluation reserve	**(39.5)**	(17.3)
Revaluation of other fixed assets	**3.4**	-
Tax credit in the Group statement of comprehensive income	**(36.1)**	(17.3)

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 23% (2013: 24%) to the profit/(loss) on ordinary activities before tax is as follows:

	2014 £m	2013 £m
Profit/(loss) from continuing operations before taxation	**456.3**	(186.6)
Current and deferred tax on Group profit/(loss) on ordinary activities at the standard UK tax rate	**104.9**	(44.8)
Effects of:		
Expenses not deductible for tax purposes	**4.7**	12.5
Income not taxable	**(2.9)**	-
Change in tax rate	**(36.1)**	(6.6)
Adjustments in respect of prior periods	**(60.2)**	(12.3)
Group relief received free of charge	**(30.1)**	(31.2)
Group current and deferred tax credit for the year/period	**(19.7)**	(82.4)

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

7. Tax credit (continued)

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

	2014	2013
	£m	£m
Accelerated depreciation for tax purposes	**(103.0)**	(29.4)
Fair value adjustment of infrastructure assets	**(2.6)**	3.5
Financial instruments	**97.3**	(53.5)
Rollover relief	**(0.1)**	-
Deferred tax credit	**(8.4)**	(79.4)

8. Dividends

	2014	2013
	£m	£m
Cash dividends	**155.3**	236.7
Non-cash dividends	**-**	260.0
Total dividends	**155.3**	496.7

During the year, dividends of £155.3m, £1.55m per share (2013: £236.7m, £2.37m per share), were declared and cash settled.

During the period ended 31 March 2013 non-cash dividends of £260.0m (£2.6m per ordinary share) were settled by way of a set off agreement which eliminated outstanding intercompany balances of the same value between Kelda Finance (No. 1) Limited and its immediate parent company, Kelda Group Limited.

9. Intangible assets

	Goodwill
	£m
Cost and net book value at 31 March 2014 and 31 March 2013	**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 2013	1,635.1	3,418.6	2,786.8	469.1	8,309.6
Additions at cost	63.3	124.6	137.6	58.9	384.4
Grants and contributions	-	-	-	(11.8)	(11.8)
Transfers on commissioning	24.0	10.4	44.4	(78.8)	-
Revaluation	14.6	-	-	-	14.6
Disposals	(3.9)	-	(14.1)	(0.5)	(18.5)
At 31 March 2014	**1,733.1**	**3,553.6**	**2,954.7**	**436.9**	**8,678.3**
Accumulated depreciation					
At 1 April 2013	421.1	63.2	1,502.9	-	1,987.2
Revaluation	(2.6)	-	-	-	(2.6)
Impairment	0.9	-	-	-	0.9
Charge for the year	30.7	59.4	147.7	-	237.8
Disposals	(3.0)	-	(13.8)	-	(16.8)
At 31 March 2014	**447.1**	**122.6**	**1,636.8**	**-**	**2,206.5**
Net book amount at 31 March 2014	**1,286.0**	**3,431.0**	**1,317.9**	**436.9**	**6,471.8**

During the year the Group capitalised borrowing costs amounting to £30.6m (2013: £18.5m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.97% (2013: 4.09%).

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
On incorporation	-	-	-	-	-
On acquisition of subsidiary	1,689.0	3,290.2	2,570.7	498.0	8,047.9
Additions at cost	6.3	30.0	71.5	226.5	334.3
Grants and contributions	-	-	-	(21.9)	(21.9)
Transfers on commissioning	(37.7)	98.4	172.5	(233.2)	-
Disposals	(22.5)	-	(27.9)	(0.3)	(50.7)
At 31 March 2013	1,635.1	3,418.6	2,786.8	469.1	8,309.6
Accumulated depreciation					
On incorporation	-	-	-	-	-
On acquisition of subsidiary	408.2	21.9	1,433.4	-	1,863.5
Charge for the period	35.1	41.3	97.5	-	173.9
Disposals	(22.2)	-	(28.0)	-	(50.2)
At 31 March 2013	421.1	63.2	1,502.9	-	1,987.2
Net book amount at 31 March 2013	1,214.0	3,355.4	1,283.9	469.1	6,322.4

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	181.9	**361.8**
Depreciation	(35.3)	(25.8)	(133.5)	**(194.6)**
Net book amount at 31 March 2014	**73.3**	**45.5**	**48.4**	**167.2**
Net book amount at 31 March 2013	75.0	47.1	54.2	176.3

The Group's infrastructure assets were valued at 31 March 2012. 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. The calculations carried out at 31 March 2012 have been reviewed at 31 March 2014 by the directors, who concluded that current book values are not materially different to current market values.

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.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,320.1m (2013: £3,185.1m).

Categories of assets revalued are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	3,431.0	2,187.0
Non-specialist properties	18.6	16.3
Rural estates	60.3	0.5
Residential properties	3.1	-
Net book amount of asset revalued	**3,513.0**	**2,203.8**

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

	Revalued amount £m	Historical cost basis £m
On incorporation	68.7	17.5
Disposal of revalued assets	(0.5)	-
Aggregate depreciation	(0.7)	(0.4)
1 April 2013	67.5	17.1
Additions to revalued assets	0.4	0.4
Net valuation surplus recognised during the year (net of impairment)	16.3	-
Disposal of revalued assets	(1.5)	(0.3)
Aggregate depreciation	(0.7)	(0.4)
31 March 2014	**82.0**	**16.8**

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

	Revalued amount £m	Historical cost basis £m
At cost	3,553.6	3,320.1
Aggregate depreciation	(122.6)	(1,133.1)
31 March 2014	**3,431.0**	**2,187.0**

11. Inventories

	2014 £m	2013 £m
Raw materials and consumables	**0.8**	1.1

12. Trade and other receivables

Amounts falling due within one year:	2014 £m	2013 £m
Trade receivables	**116.2**	107.5
Provision for impairment of trade receivables	**(26.2)**	(25.5)
Prepayments and accrued income	**65.5**	61.5
Amounts owed by Group companies	**19.5**	19.4
Other tax and social security	**6.9**	14.2
Other receivables	**3.8**	2.0
	185.7	179.1
Amounts falling due after more than one year:		
Amounts owed by Group companies	**1,265.0**	1,273.3

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 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 £264.1m (2013: £272.3m) 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 (2013: £1,009.0m) of upstream loans to Kelda Holdco Limited.

Trade receivables can be analysed as follows:

	2014 £m	2013 £m
Main charges trade receivables:		
Past due but not impaired	**78.7**	72.9
Past due and impaired	**24.9**	24.2
Other trade receivables:		
Past due but not impaired	**11.3**	9.1
Past due and impaired	**1.3**	1.3
	116.2	107.5

12. Trade and other receivables (continued)

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

	2014 £m	2013 £m
Main charges trade receivables:		
Less than one year overdue	**53.6**	49.9
Between one and two years overdue	**13.9**	12.7
Between two and three years overdue	**6.0**	5.5
Between three and four years overdue	**2.8**	2.7
More than four years overdue	**2.4**	2.1
Other trade receivables:		
Less than one year overdue	**11.3**	8.9
Between one and two years overdue	**-**	0.1
Between two and three years overdue	**-**	0.1
	90.0	82.0

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

	2014 £m	2013 £m
Main charges trade receivables:		
Less than one year overdue	**10.2**	9.8
Between one and two years overdue	**5.4**	5.0
Between two and three years overdue	**3.7**	3.5
Between three and four years overdue	**2.9**	3.2
More than four years overdue	**2.7**	2.7
Other trade receivables:		
Less than one year overdue	**1.3**	1.3
	26.2	25.5

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

	2014 £m	2013 £m
Provision brought forward	**25.5**	-
On acquisition of subsidiary	**-**	25.0
Provision for impairment	**18.4**	11.9
Amounts written off	**(17.7)**	(11.4)
Provision at 31 March	**26.2**	25.5

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

	2014 £m	2013 £m
Cash and cash equivalents	**27.5**	-
Short-term deposits	**2.7**	38.9
	30.2	38.9

At 31 March 2014, the Group had available £650.3m (2013: £657.3m) of undrawn committed borrowing facilities.

(ii) Borrowings

Current :	2014 £m	2013 £m
Bank borrowings	**191.6**	200.5
Bank borrowings under Kelda Finance facility	**65.0**	65.0
Finance leases/liabilities	**28.9**	8.3
	285.5	273.8

Non-current :	2014 £m	2013 £m
Bank borrowings	**306.2**	334.7
Fixed rate guaranteed bonds due in less than 5 years	**447.9**	447.3
Fixed rate guaranteed bonds due in more than 5 years	**1,898.5**	1,825.8
Index linked guaranteed bonds due in more than 5 years	**1,193.7**	1,161.5
Fixed rate US Dollar bonds due in less than 5 years	**29.4**	-
Fixed rate US Dollar bonds due in more than 5 years	**236.7**	309.1
Fixed rate AUS Dollar bonds due in more than 5 years	**27.3**	-
RPI uplift on index linked bonds	**107.7**	92.1
Finance leases liabilities	**234.0**	262.9
	4,481.4	4,433.4

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

6% guaranteed bonds 2017 £447.9m (2013: £447.3m)
These bonds are repayable in one sum on 19 August 2017. The interest is charged at 6%.

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

6% guaranteed bonds 2019 £273.6m (2013: £273.3m)
These bonds are repayable in one sum on 21 August 2019. Interest is charged at 6%.

6.5876% guaranteed bonds 2023 (Exchange bonds) £217.1m (2013: £218.1m)
These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.5876%.

5.375% guaranteed bonds 2023 (Stranded bonds) £4.3m (2013: £4.1m)
These bonds are repayable in one instalment on 21 February 2023. Interest is charged at 5.375%.

13. Financing (continued)

5.5% guaranteed bonds 2027 (Stranded bonds) £6.3m (2013: £6.3m)
These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

6.454% guaranteed bonds 2027 (Exchange bonds) £140.0m (2013: £140.4m)
These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

6.6011% guaranteed bonds 2031 (Exchange bonds) £245.3m (2013: £244.3m)
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 (2013: £0.7m)
These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

5.5% guaranteed bonds 2037 £195.1m (2013: £195.0m)
These bonds are repayable in one instalment on 28 May 2037. Interest is charged at 5.5%.

6.375% guaranteed bonds 2039 £305.3m (2013: £305.7m)
These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

5.75% guaranteed bonds 2020 £196.7m (2013: £196.2m)
This bond was taken out on 6 February 2013 and is repayable in one sum on 17 February 2020. The interest is charged at 5.75%.

3.625% *guaranteed bonds 2029 £227.9m (2013: £241.7m)*
These bonds were issued on 1 August 2012 and are repayable in one instalment on 1 August 2029. The interest is charged at 3.625%.

4.965% Class B guaranteed bonds 2033 £86.2m (2013: £nil)
These bonds were issued in May 2013 and are repayable in one instalment on 12 December 2033. The interest is charged at 4.965%.

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

3.3066% index linked guaranteed bonds 2033 (Exchange bonds) £143.1m (2013: £138.2m)
These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.718% index linked guaranteed bonds 2039 £322.2m (2013: £314.5m)
These bonds are repayable in one instalment on 30 December 2039. The interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

2.16% *index linked guaranteed bonds 2041 £52.8m (2013: £51.4m)*
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.

13. Financing (continued)

1.8225% index linked guaranteed bonds 2050 £79.8m (2013: £77.7m)
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 £158.0m (2013: £153.8m)
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 £104.5m (2013: £101.7m)
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 £158.1m (2013: £153.7m)
These bonds are repayable in one instalment on 1 August 2056. The interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.709% index linked guaranteed bonds 2058 £122.8m (2013: £119.5m)
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.

1.083% *index linked guaranteed bonds 2042 £52.4m (2013: £51.0m)*
These bonds were issued on 22 May 2012 are repayable in one instalment on 22 May 2042. The interest is charged at 1.083% 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.

- $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%.

13. Financing (continued)

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 £29.0m (1 - 2 years), £109.9m (2 - 5 years) and £167.3m (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 3.97% (2013: 4.013%).

(iii) Finance leases

Amounts payable under finance leases:	**Minimum lease payments 2014 £m**	Minimum lease payments 2013 £m
No later than 1 year	**42.5**	11.0
Later than 1 year and no later than 5 years	**194.4**	228.7
Later than 5 years	**131.6**	145.5
	368.5	385.2
Less: future finance charges on finance lease liabilities	**(105.6)**	(114.0)
Present value of lease obligations	**262.9**	271.2
Amount due for settlement within 12 months	**28.9**	8.3
Amount due for settlement after 12 months	**234.0**	262.9
	262.9	271.2

All lease obligations are denominated in sterling.

The weighted average lease term is 11.0 years (2013: 13.0 years). For the year ended 31 March 2014 the average effective borrowing rate was 1.8% (2013: 2.6%). 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:	2014 £m	2013 £m
Trade payables	**52.8**	57.5
Capital payables	**64.4**	99.7
Social security and other taxes	**1.9**	2.0
Receipts in advance	**56.7**	50.6
Amounts owed to Group companies	**7.9**	7.3
Interest payable	**103.7**	90.9
Deferred income	**161.9**	150.4
Other payables	**10.5**	8.2
	459.8	466.6

Amounts falling due after more than one year:		
Interest payable	**42.7**	50.8
Other payables	**1.6**	0.1
	44.3	50.9

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.

15. Provisions for other liabilities and charges

	£m
On incorporation	-
On acquisition of subsidiaries	0.6
At 1 April 2013	0.6
Created in the year	0.1
At 31 March 2014	**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 tax liabilities

	Accelerated capital allowances	Fair value adjustment of infrastructure assets	Revaluation reserve	Roll-over relief	Financial instruments	Total
	£m	£m	£m	£m	£m	£m
On incorporation	-	-	-	-	-	-
On acquisition of subsidiaries	589.7	41.8	320.9	0.8	(318.7)	634.5
(Credit)/charge to income statement	(29.4)	3.5	-	-	(53.5)	(79.4)
Credit to revaluation reserve	-	-	(17.3)	-	-	(17.3)
At 1 April 2013	560.3	45.3	303.6	0.8	(372.2)	537.8
Transfer on capitalisation of revaluation reserve	-	303.6	(303.6)	-	-	-
(Credit)/charge to income statement	(103.0)	(2.6)	-	(0.1)	97.3	(8.4)
(Credit)/charge to equity	-	(39.5)	3.4	-	-	(36.1)
At 31 March 2014	**457.3**	**306.8**	**3.4**	**0.7**	**(274.9)**	**493.3**

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 2014 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 2014.

An accrual for unfunded benefits of £3.2m (2013: £3.1m) has been included in the Group's financial statements at 31 March 2014.

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) 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.

	2014	2013
	%	%
Inflation (RPI)	**3.35**	3.40
Inflation (CPI)	**2.45**	2.70
Rate of increase in salaries	**4.35**	4.40
Rate of increase to pensions in payment and deferred pensions	**3.40**	3.40
Discount rate for scheme liabilities	**4.55**	4.40
Life expectancy for a male pensioner aged 60 (in years)	**26.6**	26.7
Projected life expectancy at age 60 for male aged 40 (in years)	**28.6**	28.7

(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.

	2014	2013
	£m	£m
Fair value of scheme assets		
Equities	**242.9**	438.5
Bonds	**325.3**	400.0
Property	**82.4**	76.3
Other	**417.7**	106.1
Total value of assets	**1,068.3**	1,020.9
Present value of scheme liabilities	**(1,161.3)**	(1,179.3)
Pension liability	**(93.0)**	(158.4)

(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 period ended 31 March 2014 was £1.7m (2013: £0.9m).

18. Ordinary shares

	2014	2013
	£	£
Issued and fully paid: 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:

	2014 Less than one year £m	**2014 More than one year £m**	**2014 Total £m**	2013 Less than one year £m	2013 More than one year £m	2013 Total £m
Financial assets:						
Combined cross currency interest rate swaps	**-**	**-**	**-**	-	19.0	19.0
	-	**-**	**-**	-	19.0	19.0
Financial liabilities:						
Finance lease interest swaps	**-**	**(15.7)**	**(15.7)**	-	(21.6)	(21.6)
Index linked swaps	**-**	**(1,338.7)**	**(1,338.7)**	-	(1,636.9)	(1,636.9)
Combined cross currency interest rate swaps	**-**	**(30.7)**	**(30.7)**	-	-	-
Energy derivative	**(5.7)**	**(0.7)**	**(6.4)**		-	-
Fixed to floating interest rate swaps	**-**	**(29.3)**	**(29.3)**	-	(7.3)	(7.3)
	(5.7)	**(1,415.1)**	**(1,420.8)**	-	(1,665.8)	(1,665.8)
Net debt:						
Cash and short term deposits	**30.2**	**-**	**30.2**	38.9	-	38.9
Loans receivable from Group companies	**-**	**1,009.0**	**1,009.0**	-	1,009.0	1,009.0
Borrowings	**(285.5)**	**(4,481.4)**	**(4,766.9)**	(273.8)	(4,433.4)	(4,707.2)
	(255.3)	**(3,472.4)**	**(3,727.7)**	(234.9)	(3,424.4)	(3,659.3)

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 £1,446.4m (2013: £1,729.0m) on index linked swaps. £1,338.7m (2013: £1,636.9) is shown as index linked swaps as in the table above; the remaining £107.7m (2013: £92.1m) is shown within borrowings in note 13.

The Group uses energy derivatives to manage its exposure to change in energy prices. The derivate contract allows the Group to sell back previously locked in trades and take advantage of short term price fluctuations resulting in a position of net settlement. As a result the contract is classified as fair value through profit and loss in line with IAS 39. The fair value of the energy derivative at 31 March 2014 was £6.4m (2013: £nil). The year on year movement in fair value of £6.4m has been recognised as a charge in other operating costs within the income statement.

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 2014 is below. This includes interest payable or receivable in the period as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Period ended 31 March 2014

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	264.9	36.8	35.7	34.6	23.7	50.6	446.3
Guaranteed bonds	133.7	133.7	133.7	558.4	106.7	2,859.9	3,926.1
US Dollar bonds	11.3	11.3	11.3	11.3	39.4	294.8	379.4
Other interest rate swaps	3.1	3.2	3.2	3.3	3.3	29.0	45.1
Finance lease swaps	2.3	2.0	1.6	1.4	1.3	15.1	23.7
	415.3	187.0	185.5	609.0	174.4	3,249.4	4,820.6
Floating rate							
Index linked guaranteed bonds	23.9	23.9	23.9	23.9	23.9	1,749.5	1,869.0
US Dollar bonds	1.1	1.1	1.1	1.1	1.1	79.1	84.6
Guaranteed bonds	6.5	6.5	6.5	6.5	6.5	198.2	230.7
Bank loans	3.5	4.3	5.5	6.2	21.1	159.6	200.2
Combined cross currency interest rate swaps	7.4	7.4	7.4	7.4	7.4	25.2	62.2
Index linked swaps	32.0	32.0	133.9	93.3	32.0	1,899.0	2,222.2
Fair value interest rate swaps	7.6	7.6	7.6	7.6	7.6	86.6	124.6
Finance leases	42.5	49.9	115.0	12.7	16.8	131.6	368.5
	124.5	132.7	300.9	158.7	116.4	4,328.8	5,162.0
Non-interest bearing financial liabilities							
Trade payables	52.8	-	-	-	-	-	52.8
Other payables	238.9	-	-	-	-	-	238.9
	291.7	-	-	-	-	-	291.7

19. Financial instruments (continued)

Period ended 31 March 2013

	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	45.0	37.9	36.8	35.7	34.6	53.8	243.8
Guaranteed bonds	134.6	134.6	134.6	134.6	134.6	3,490.1	4,163.1
US Dollar bonds	11.4	11.4	11.4	11.4	11.4	336.1	393.1
Finance lease swaps	2.1	2.3	2.3	2.3	2.3	29.7	41.0
	193.1	186.2	185.1	184.0	182.9	3,909.7	4,841.0
Floating rate							
Index linked guaranteed bonds	22.1	22.1	22.1	22.1	22.1	1,636.1	1,746.6
US Dollar bonds	1.1	1.1	1.1	1.1	1.1	76.9	82.4
Bank loans	3.3	3.3	3.6	4.0	20.1	157.0	191.3
Bank loans under Kelda Finance facility	65.7	-	-	-	-	-	65.7
Combined cross currency interest rate swaps	6.6	6.6	6.6	6.6	6.6	28.2	61.2
Fair value interest rate swaps	4.8	4.8	4.8	4.8	4.8	52.4	76.4
Index linked swaps	31.9	31.9	31.9	133.9	93.3	1,929.7	2,252.6
Finance leases	10.9	52.6	49.5	57.8	68.8	145.5	385.1
	146.4	122.4	119.6	230.3	216.8	4,025.8	4,861.3
Non-interest bearing financial liabilities							
Trade payables	57.5	-	-	-	-	-	57.5
Other payables	208.1	-	-	-	-	-	208.1
	265.6	-	-	-	-	-	265.6

(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 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 2014 £m	**Company 2014 £m**	Group 2013 £m	Company 2013 £m
Cash and short term deposits (see note 13)	**30.2**	**-**	38.9	-
Trade and other receivables (see note 12)	**1,450.7**	**-**	1,452.4	-
Financial assets	**-**	**-**	19.0	-
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 2014 the Group had £680.5m of available liquidity (2013: £696.2m) which comprised £30.2m available cash and short term deposits (2013: £38.9m) and £650.3m of undrawn committed borrowing facilities (2013: £657.3m).

The maturity profile on page 78 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	**2014 £m**	2013 £m
1% increase in RPI leading to a decrease in profit	**(43.0)**	(44.9)
1% decrease in RPI leading to an increase in profit	**43.0**	44.9
1% increase in LIBOR leading to an increase in profit	**6.5**	5.3
1% decrease in LIBOR leading to a decrease in profit	**(6.5)**	(5.3)

19. Financial instruments (continued)

(c) Fair values of financial assets and financial liabilities

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

	2014	**2014**	2013	2013
	Level 1	**Level 2**	Level 1	Level 2
	£m	**£m**	£m	£m
Primary financial instruments financing the Group's operations				
Financial assets held at amortised cost				
Cash and short term deposits	**(78.3)**	**-**	(87.5)	-
Financial assets from concession arrangements	**(168.2)**	**-**	(168.6)	-
Loans to associates/joint ventures	**(9.9)**	**-**	(9.1)	-
Financial assets designated as Fair Value Through Profit and Loss				
Combined cross currency interest rate fair value swaps	**-**	**-**	-	(19.0)
Financial liabilities				
Designated as Fair Value Through Profit and Loss				
Fixed rate interest rate swaps in respect of finance leases	**-**	**15.7**	-	21.5
Combined cross currency interest rate fair value swaps (US dollar and AU dollar)	**-**	**30.7**	-	-
Fixed rate US dollar bonds	**-**	**266.1**	-	309.1
Fixed rate AU dollar bonds	**-**	**27.3**	-	-
Fixed rate Sterling bonds	**231.1**	**86.9**	244.9	-
Fixed to floating interest rate swaps	**-**	**29.3**	-	7.3
Index linked swaps	**-**	**1,446.4**	-	1,729.0
Energy derivative	**6.4**	**-**	-	-
Financial liabilities held at amortised cost				
Fixed rate bank loans	**562.8**	**-**	653.9	-
Fixed rate sterling bonds	**2,356.0**	**-**	2,478.0	-
Index linked sterling bonds	**1,042.5**	**105.8**	1,069.5	103.0
Finance leases	**262.9**	**-**	271.2	-

The fair values for all financial instruments have been calculated either by discounting the expected future cash flows at interest rates prevailing for a comparable maturity period for each instrument and adjusting for own and counter-party credit risk or by reference to market values for similar instruments.

19. Financial instruments (continued)

Fair value hierarchy of derivative financial instruments
For all financial instruments held by the Group, those that are held at fair value are to be classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 - unadjusted quoted prices in active markets or identical assets or liabilities;

Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices; and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The Group holds all derivatives at fair value using discounted cash flow models based on observable market rates adjusted for own and counter-party credit risk. Therefore all derivative financial instruments held by the Group fall into Level 2. No financial instruments have moved between the levels in the year.

Movements in the fair value of index linked swaps in respect of borrowings of £282.6m were recognised in the income statement (2013: £310.3m). Of this movement a credit of £298.2m (2013: charge of £292.3m) is recognised in exceptional finance income and a charge of £15.6m (2013: £18.0m) is recognised in finance costs to accrue for the RPI bullet payment on the swaps. Movements in the fair value of fixed rate swaps in respect of finance leases of £5.9m were recognised in the income statement (2013: £0.8m).

A charge from the movement in fair value of combined cross currency interest rate swaps of £49.7m was recognised in the income statement (2013: £3.8m income), offset by the change in fair value of the associated bonds of £49.4m (2013: £5.6m income). Of the change in fair value of associated bonds, £43.0m (2013: £5.6m income) relates to fixed US dollar bonds. The remaining £6.4m (2013: £nil) change in fair value relates to the movement between the fair value of AUS dollar bonds of £33.7m when issued during the year and the fair value of £27.3m at 31 March 2014.

Movements in the fair value of fixed to floating interest rate swaps of £22.0m was recognised in the income statement (2013: £7.3m), offset by the change in fair value of the associated bonds of £16.8m (2013: £5.1m). £13.8m (2013: £7.3m) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £227.9m (2013: £241.7m) at 31 March 2014. The remaining £3.0m (2013: £nil) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £86.2m (2013: £nil) at 31 March 2014. These bonds were valued at £89.2m (net of issue costs) when issued. All interest rate swaps have maturity dates in excess of five years.

Some interest rate swaps in respect of borrowings have break dates at which time both parties have an option to repay the swap. The first of these break dates falls in August 2016.

19. Financial instruments (continued)

(d) Hedges

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

Interest rate swaps are used to manage interest rate exposure under a policy that requires at least 85% of Yorkshire Water and Kelda Holdco Limited net debt to be fixed or index linked. At the financial year end the proportions were 110% and 105% respectively (2013: 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 £1,289m and have an average life of 26 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 17 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.

The fair value of the indexed linked hedging instruments at 31 March 2014 was a loss of £1,446.4m (2013: £1,729.0m loss). The fair value movement in the year has been recognised in the income statement as an exceptional item because the criteria for hedge accounting were not met.

Hedging of interest due under finance leases

The Group has a number of finance leases with a number of counterparties lasting from inception for periods up to 34 years. In most cases interest payable under the lease is set once a year in late March or early April based on 12 month LIBOR. The Group is therefore exposed to changes in 12 month LIBOR which could have a material effect on interest costs from year to year and over time. £59.2m of leases are reset semi-annually based on 6 month LIBOR.

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

The hedging instrument no longer meets the criteria to classify for hedge accounting. The fair value of the hedging instrument at 31 March 2014 was a £15.7m loss (2013: £21.6m loss).

The cash flow hedge was assessed to be ineffective at 31 March 2014 and a credit of £5.9m (2013: £0.8m charge) relating to the hedging instrument was included in the income statement (net of deferred tax).

19. Financial instruments (continued)

Fair value hedges

Combined cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the Group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The Group has made a provision of £23.1m (2013: £19.0m asset) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £43.0m (2013: £5.6m loss) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The Group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £23.7m (2013: £7.3m) for the mark to market loss 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 £13.8m (2013: £5.1m) 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.

During 2013/14 the Group entered into a £90m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. During the year, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £5.6m (2013: £nil) for the mark to market loss 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 £3.0m 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.

During 2013/14 the Group entered into 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. During the year, the hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The Group has made a provision of £7.6m (2013: £nil) 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, the carrying amount of the bonds was adjusted for

19. Financial instruments (continued)

a fair value gain of £6.4m which was included in the income statement at the same time that the 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. Share based payments

Share options

Prior to its acquisition by the Group, Yorkshire Water Services Limited was part of a group of companies that operated a savings related share option scheme under which options were granted to employees. The scheme was closed following the acquisition of Kelda Group Limited (formerly Kelda Group plc) by Saltaire Water Limited in the 2008/9 financial year. Certain schemes have been allowed to continue until the planned maturity with members having the option to continue contributing. For any member who has taken that option, charges to the income statement will continue until the maturity of the scheme. For any other member who has opted to close their scheme, charges to the income statement ceased in the month that they chose to leave the scheme.

The employee share option plans were open to all qualifying employees and provided for an exercise price equal to the daily average market price on the date of grant less 20%. The options previously vested if the employee remains in service for the full duration of the option scheme (either three or five years), but the choice to vest on takeover was available to all option holders.

	2014		2013	
	Options	**Weighted average exercise price £**	Options	Weighted average exercise price £
On acquisition of subsidiaries	**-**	**-**	2,384	7.41
Exercised during the year/period	**-**	**-**	(2,384)	7.41
Outstanding at the end of the year/period	**-**	**-**	-	-
Of which exercisable at the end of the year/period	**-**	**-**	-	-

The weighted average share price at the date of exercise for share options exercised during the period ending 31 March 2013 was £10.90. There were no options outstanding at 31 March 2014 or 31 March 2013.

20. Share based payments (continued)

The fair value of the share options granted is estimated as at the date of grant using the Black Scholes statistical model. There were no shares granted in the year ending 31 March 2014 (2013: none). The inputs into the Black Scholes model for 2007 were as follows:

	2007
Share price at date of grant	926p
Exercise price	741p
Expected volatility	25%
Expected life	3 and 5 years
Risk free rate	5.08%
Expected dividends	31p

Expected volatility was determined by calculating the historical volatility of the Kelda Group's share price over the previous 6 years.

21. Additional cash flow information

Analysis of movement in net debt

	On incorporation £m	On acquisition of subsidiaries £m	Non-cash movements £m	Cash movements £m	At 1 April 2013 £m	**Non-cash movements £m**	**Cash movements £m**	**At 31 March 2014 £m**
Cash and cash equivalents	-	52.5	-	(13.6)	38.9	**-**	**(8.7)**	**30.2**
	-							
Debt due within one year	-	(232.5)	(260.0)	226.9	(265.6)	**(28.5)**	**37.5**	**(256.6)**
Finance leases due within one year	-	(23.3)	-	15.1	(8.2)	**-**	**(20.7)**	**(28.9)**
	-	(255.8)	(260.0)	242.0	(273.8)	**(28.5)**	**16.8**	**(285.5)**
Debt due after one year	-	(3,716.3)	(39.6)	(414.6)	(4,170.5)	**45.9**	**(122.8)**	**(4,247.4)**
Finance leases due after one year	-	(268.1)	-	5.2	(262.9)	**-**	**28.9**	**(234.0)**
	-	(3,984.4)	(39.6)	(409.4)	(4,433.4)	**45.9**	**(93.9)**	**(4,481.4)**
Total net debt	-	(4,187.7)	(299.6)	(181.0)	(4,668.3)	**17.4**	**(85.8)**	**(4,736.7)**

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 cashflow statement can be derived as follows:

	2014	2013
	£m	£m
Profit/(loss) from continuing operations before taxation	**456.3**	(186.6)
Finance income	**(81.7)**	(63.1)
Finance costs	**264.2**	194.3
Exceptional finance (income)/costs (non-cash)	**(298.6)**	297.1
Movements of fair value of derivative financial instrument (energy contracts)	**6.4**	-
Depreciation and amortisation of capital grants	**234.9**	171.0
Profit on disposal of property, plant and equipment	**(5.9)**	-
Impairment of property, plant and equipment	**0.9**	-
Decrease in inventories	**0.4**	0.1
Decrease in trade and other receivables	**7.1**	12.0
Increase/(decrease) in trade and other payables	**1.8**	(20.1)
Movement in provisions	**0.1**	-
Other movements	**0.3**	0.4
Cash generated from continuing operations	**586.2**	405.1

22. Commitments

	2014	2013
	£m	£m
Contracts placed at 31 March	**331.3**	326.2

The long-term investment programme for the UK regulated water services business, which identified substantial future capital expenditure commitments in the period 1 April 2010 to 31 March 2015, was agreed as part of the Price Review process which was finalised in November 2009.

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:

	2014 Land and buildings £m	**2014 Other £m**	2013 Land and buildings £m	2013 Other £m
No later than 1 year	**1.3**	**1.9**	1.4	2.1
Later than 1 year and no later than 5 years	**5.9**	**2.4**	5.1	2.9
Later than 5 years	**3.1**	**-**	2.0	0.4
	10.3	**4.3**	8.5	5.4

23. Related parties

Compensation of key management personnel (including directors)

	2014	2013
	£m	£m
Short-term benefits	**3.2**	3.0
Post-employment benefits	**0.1**	0.2
Termination payments	**-**	0.1
	3.3	3.3

24. Principal subsidiary companies

Principal 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 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 largest 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.

Kelda Finance (No. 1) Limited
Company balance sheet
as at 31 March 2014

	Notes	**2014** **£m**	2013 £m
Fixed assets			
Investments	3	**778.4**	778.4
Total assets		**778.4**	778.4
Net assets		**778.4**	778.4
Capital and reserves			
Profit and loss account	4	**778.4**	778.4
Total shareholder's funds		**778.4**	778.4

The financial statements on pages 91 to 93 were approved by the board of directors on 14 July 2014 and signed on their behalf by:

Stuart McFarlane
Director
Kelda Finance (No. 1) Limited

Registered Number: 08066326

1. Company accounting policies

Basis of accounting
The Company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with all applicable United Kingdom accounting standards and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006.

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

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.

Cash flow statement
The Company is a wholly owned subsidiary company of a group headed by Kelda Holdings Limited, and is included in the consolidated financial statements of that company, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

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 £155.3m (2013: £496.7m). 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 14 July 2014.

3. Fixed asset investments

	Shares in Group undertakings £m
Cost at 31 March 2014 and 31 March 2013	**778.4**

On 25 June 2012, Kelda Finance (No. 1) Limited issued 99 ordinary shares of £1.00 each, in addition to the single share already in issue, at a premium of £778.4m to Kelda Group Limited in a share for share exchange in return for the entire share capital of Kelda Finance (No.2) Limited.

A list of the major subsidiaries of the Company can be found on page 90. The directors believe that the carrying value of the investments is supported by their underlying net assets.

4. Reconciliation of movements in shareholder's funds

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total shareholder's funds £m
On incorporation	-	-	-	-
Issue of shares	-	778.4	-	778.4
Reduction in capital	-	(778.4)	778.4	-
Profit for the period	-	-	496.7	496.7
Dividends paid	-	-	(496.7)	(496.7)
Shareholder's funds at 1 April 2013	-	-	778.4	778.4
Profit for the year	-	-	155.3	155.3
Dividends paid	-	-	(155.3)	(155.3)
Shareholder's funds at 31 March 2014	**-**	**-**	**778.4**	**778.4**

During the period ending 31 March 2013 99 ordinary shares of £1.00 each were issued to Kelda Group Limited at a premium of £778.4m in exchange for the entire shareholding of Kelda Finance (No.2) Limited. See note 3 for more details.

On 25 June 2012, the board passed a special resolution to reduce the share premium account from £778.4m to £nil.

5. Other information

The Company had no employees at 31 March 2014 (2013: nil).

Details of directors' emoluments are set out in the directors' emoluments note on page 61. 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.

The Company has taken advantage of the exemption granted by paragraph 3c of FRS 8 "Related party disclosures", not to disclose transactions with other wholly-owned Group companies.

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.

Kelda Eurobond Co Limited, a company registered in England and Wales, is the largest UK group to consolidate these financial statements. Kelda Finance (No. 1) Limited is the smallest 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.

Report on the Company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Company financial statements (the "financial statements"), which are prepared by Kelda Finance (No. 1) Limited, comprise:

- the Company balance sheet as at 31 March 2014; and
- the notes to the Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Annual report and financial statements (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.

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 38 and 39, 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 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.

Other matter

We have reported separately on the Group financial statements of Kelda Finance (No. 1) Limited for the year ended 31 March 2014.

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2014