

D8 - TREASURY POLICY

1. Summary

Treasury policy is carried out by a centralised Group Treasury Department. The Department operates as a basic cost centre, with no profit remit and with speculation prohibited. The Board's attitude to risk management is risk averse and the Treasury operation is constantly monitored by a governance group chaired by the Group Finance Director. The function is audited annually.

Prior Board approval is required for:

- a) all new holding company and subsidiary borrowing facilities
- b) risk management strategy changes
- c) foreign exchange hedging policy changes

Treasury policy is conducted, and transactions initiated, within approved limits by persons authorised to do so by resolution of the Board. Persons so authorised currently are the Group Treasurer (acting under the authority of the Group Finance Director) and such authorised dealers who may be appointed from time to time by two Authorised Persons of the Company.

2. Authorised Persons

For Treasury activities, Authorised Persons shall be:

- a) any two Executive Directors of the Company, or subsidiary (as appropriate)
- b) any Executive Director of the Company, or subsidiary (as appropriate), together with one of the Company Secretary, the Group Treasurer, Group Finance Manager or the Group Financial Controller.

3. Scope of Authorised Persons

- (i) Any **two** Authorised Persons, as defined in (2) above, only after formal notification to, ongoing liaison with, and final approval from, either the Group Finance Director or the Group Treasurer, shall be authorised on behalf of the Company to:
 - a) open and close bank accounts;
 - b) give mandates to banks including names and specimen signatures;
 - c) discount with any bank any of the notes, bills receivable or acceptances held by the Company upon such terms as they may deem advisable and to pledge as security to any bank any of the notes, bonds, stocks, bills receivable and or other documents, accounts, securities and/or property of the Company and to execute and deliver any and all endorsements or instruments of assignment or transfer to any bank the property so hypothecated or delivered;
 - d) appoint dealers for the Company to execute transactions with bankers; and

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- e) sign ISDA Master Agreements and other confirming documentation of interest rate swap, currency swap and other derivative products, only for the purpose of hedging the Company's risks.

 - (ii) Any **one** Executive Director of the Company, or subsidiary (as appropriate), or the Company Secretary, only after formal notification to, ongoing liaison with, and final approval from either the Group Finance Director or the Group Treasurer, shall be authorised to arrange loans to or from wholly owned subsidiary companies and to sign any initial documents relating thereto.

Only the Group Finance Director or Group Treasurer may appoint advisers and intermediaries to assist in the negotiation and arranging of financial transactions.

4. Scope of Treasury Personnel

Working within existing board approvals the Group Treasurer, together with such other authorised dealers as defined above, is responsible for:

- a) the establishment and administration of all banking arrangements within the Group;
- b) daily UK cash management, procedures for which are described in the departmental Treasury Manual;
- c) payments from all UK company bank accounts by CHAPS in sterling, and all foreign payments from the UK apart from small value transactions in Yorkshire Water organised by the Finance Service Centre (i.e. up to sterling equivalent £20,000);
- d) the issuance and updating of investment guidelines in line with approved credit rating criteria;
- e) the execution of foreign exchange contracts to buy and sell foreign currencies, spot and forward, to purchase currency options and related derivative products, only for the purpose of hedging Company risks or to make duly authorised foreign payments in the ordinary course of business;
- f) the arrangement of guarantees and performance bonds as directed and authorised by separate procedures given below;
- g) convening regular meetings of the Treasury & Taxation Review Group (TTRG), at which treasury activities will be reported and reviewed.

5. Subsidiary Companies

Subsidiaries, associated companies and personnel within the Group, all have a responsibility to:

- a) report any foreign exchange exposure, whether actual or potential, as soon as it may arise or becomes known;
- b) advise of any dispute, or potential dispute, with the Company's bankers;
- c) ensure that all external payment requests given to Group Treasury comply with the relevant companies' authorisation procedures which, unless otherwise subsequently amended, shall be considered to be as follows:

Kelda Holdings Ltd	- 1 signatory per Group Finance "Invoice Approval Authorisation Limits" list, countersigned by a second person as due and
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payable (the second person does not need to be an authorised signatory)

All Kelda Holdings Ltd subsidiaries to and including Kelda Group Ltd shall apply the same authorisation procedure as Kelda Holdings Ltd.

Yorkshire Water - any 2 bank signatories

Keyland Developments and its subsidiaries - any 2 bank signatories and in accordance with the authorisation limit specified in its Financial Control Manual

All other companies - any 2 bank signatories

NB Authorising signatories do not have to authorise within their cheque signing limit per individual bank mandate.

6. Debt Funding

The Group Treasurer prepares a Treasury Strategy Paper for Board approval annually, or more regularly where necessary. It includes projections and recommendations for future funding, following which a range of approved options may be pursued before final Board ratification.

7. Investment Management

The Company's policy on investments is designed to minimise risk whilst at the same time enabling the Company and its subsidiaries to take advantage of competitive pricing. Deposits are restricted in amount and duration by credit rating. The Company's requirements based on individual long term ratings are as follows.

Bank long term rating	Maximum Amount	Maximum Period
	£m	mths
AAA rated Liquidity Funds	40	N/A
AAA	100	12
AA rated UK clearers	60	12
Other AA	40	6
A	20	3

With respect to liquidity funds, whilst these offer more attractive rates they do carry the risk of loss of principal and this is reflected in the fact that a higher level has been attributed to AAA rated banks and AA rated UK clearing banks than to AAA rated liquidity funds.

8. Cash Management

The Treasury Department exists to provide cost effective banking services to the Company and its subsidiaries. All UK bank accounts require two signatures. Day-to-day UK cash management procedures are extensively documented in the Departmental Treasury Manual.

9. Foreign Exchange

- a) Neither the Company nor any of its subsidiaries shall, without prior notification to and consent from the Group Treasurer, enter into any contract in which the settlement amount is expressed in a currency other than the domestic currency of the company concerned, or in which a domestic currency payment amount is calculated using an exchange rate which has not been fixed and agreed in advance.
- b) The Company and any of its subsidiaries shall notify the Group Treasurer in advance of any intention to negotiate with suppliers, customers or joint venture partners where it is considered likely that foreign exchange exposure may arise.

All currency exposures other than the domestic currency of the company concerned should be notified to the Group Treasurer as soon as they become known, in order that appropriate hedges are considered.

Currency hedging strategies for specific large projects or acquisitions exceeding £5 million are agreed in advance by the Board.

10. Interest Rate Management

Several different types of derivative instruments are used to manage interest rate risk in accordance with strategies approved by TTRG and the Kelda Holdings Ltd Board. Interest rate and currency instruments may only be transacted by authorised Group Treasury personnel.

These strategies draw a clear line between hedging and speculation, and interest rate derivatives are used only as a tool for managing interest rate risk on underlying debt or cash.

The notional value of derivative products must never exceed the value of the underlying debt or cash. These contracts involve the exchange of interest payments only, with no principal sum exchanged (apart from currency swaps) and are transacted with a list of approved counterparties.

The Company operates a policy requiring a percentage of its cleared net debt to be held at fixed and index linked rates. The current guidelines are that at least 85% of net debt at Yorkshire Water level must bear interest at fixed or index linked rates. The proportion held in fixed and index linked form can exceed 100% if pre-hedging of future debt is appropriate; should this be the case the respective Boards must be advised of the positions undertaken. Other subsidiaries' working capital funding is provided by inter-company loans from other companies within the Kelda Holdings Ltd group of companies.

11. Bonds and Guarantees

The current approval and reporting process for the issuing of bonds, guarantees and counter indemnities by the parent company, subsidiaries and joint venture companies is set out separately in the Parent Company and Subsidiary Company Guarantees Policy (see section B4).