Yorkshire Water Services Limited

Annual Report and Financial Statements

For the year ended 31 March 2014

YorkshireWater

‘Taking responsibility for the water environment for good’

Contents

Strategic Report
About this report – Integrated Reporting

Yorkshire Water Services Limited (Yorkshire Water) is joining a growing community of organisations working towards 'integrated reporting'. This is defined as the communication of an organisation's strategy, governance, performance and prospects to create sustainable value; financially, socially and environmentally.

An integrated approach to reporting recognises that strategy, risk, performance and sustainability have become inseparable and are integral to an organisation's success.

In a change from previous reports, Yorkshire Water's Annual Report this year combines material sustainability issues throughout the one document, rather than in an individual Corporate Social Responsibility (CSR) section or a separate report. The company recognises that there is much more to do to achieve fully integrated reporting. Future annual reports will develop this approach further.

This integrated approach is about much more than reporting; it is central to how Yorkshire Water operates to achieve its company vision and strategic objectives.

Find out more about integrated reporting at the International Integrated Reporting Council: www.theiirc.org

Chairman's Review

Yorkshire Water again has a good set of financial results underpinned by continuing investment and improvement in our operational and environmental performance.

Over the past 12 months we have performed strongly against the Office of Water Services' (Ofwat) key performance indicators, with the trend being one of year-on-year improvement across many of our regulatory measures.

Particularly pleasing has been the significant improvements we have delivered in the quality of our customer service, which we intend to build on further in 2014/15.

During the year we continued to make substantial capital investment in the region, one outstanding highlight being our £110m initiative to improve the quality of bathing waters on Yorkshire's east coast. As we conclude this work I am pleased that environmental benefits were already being delivered prior to the start of this year's official bathing season.

We also continued to make major investment in renewable energy generation, a key element of our on-going plans to reduce energy consumption, our carbon footprint and operating costs.

Following £30m of investment at one of our biggest waste water treatment works in Bradford, the works is now well on the way to being entirely self-sufficient with regard to energy generation. Similarly, £23m of investment in a new anaerobic digestion facility at our Blackburn Meadows waste water treatment works in Sheffield will also play a key role in helping us to minimise our environmental impact and costs.

In recognition of the financial pressures being faced by our customers, as well as continuing to focus on reducing our operating costs, we decided not to increase charges by as much as originally planned in 2014/15, limiting the increase to the rate of inflation.

In our business plan for the period 2015 to 2020, our intention is to ensure that average customer bills do not rise by above the rate of inflation until at least 2020.

Kevin Whiteman
Chairman

Introduction

We serve the Yorkshire region from Whitby in the north to Chesterfield on the edge of Derbyshire in the south, and from Bridlington on the east coast to Ingleton in the west.

We manage the collection, treatment and distribution of the region's water. We supply around 1.3 billion litres of drinking water every day and then collect, treat and return just less than 1 billion litres of waste water safely back into the environment.

We serve a population of approximately five million people and around 135,000 businesses.

Our work in managing this natural resource for the benefit of our customers and the environment requires careful, long-term planning.

Over the period from 2010 to 2015 we will be investing around £3.5 billion to operate and improve the region's water and sewerage infrastructure, providing a major boost to the local economy.

Business Strategy and Model

Our vision is:
'Taking responsibility for the water environment for good'

As a regulated water and sewerage company, we recognise the importance of our role as a provider of some of life's most essential services and as custodians of the natural environment and essential infrastructure. The essence of the vision is doing what is right – for customers, colleagues, partners, the environment and investors. This holistic and integrated approach is critical to the sustainability of our water and waste water services and our business.

Strategic Business Objectives – a strategy to achieving our vision

The strategy to achieving our vision is summarised in six Strategic Business Objectives (SBOs). Each SBO includes 25 year outcomes with short and medium-term targets to drive towards them. These SBOs are our commitment to sustainability; they encompass all our material issues as a business and shape everything we do.

This report details our progress in working towards our vision, focusing on the achievements made in 2013/14, the first year of our new annual SBO targets.

Our approach to SBOs will continue to advance and evolve. In 2013/14 we delivered some examples of leading performance and we recognise that there is more to do. With that in mind, the report also looks forward to the challenges we face over the coming years and some of the plans we are putting in place to mitigate strategic risks.

Full details of our SBOs can be found on our website in a report published in December 2013:

www.yorkshirewater.com/medialibrary/PDF%20files/Annual%20Reports/23420%20Sustainability%20Report%20V12.pdf

Our SBOs are:

Trusted company: part of our Blueprint for Yorkshire

Safe water: part of our Blueprint for Yorkshire

Excellent catchments, rivers and coasts: part of our Blueprint for Yorkshire

excellent

Water efficient regions: part of our Blueprint for Yorkshire

Sustainable resources: part of our Blueprint for Yorkshire

Strong financial foundations: part of our Blueprint for Yorkshire

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

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

Excellent Catchments, Rivers and Coasts
We maintain and improve the water environment from source to sea and influence others to do the same.

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

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

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

Blueprint for Yorkshire – our plans for the future

In December 2013 we published our five and 25 year plans which explain the journey we will need to take to deliver our customers' priorities and to play our part in the continued success of the Yorkshire region. We called these plans our Blueprint for Yorkshire. They are based on our SBOs.

We developed the plans through extensive engagement with customers and stakeholders to ensure that they are fair and balanced in delivering society's expectations. The plans have received support from our customers, stakeholders and quality regulators. Yorkshire's independent Customer Forum exists to challenge the company in developing its plans. The Forum concluded that we have a clear mandate from our customer base and they have commended our approach.

Our plan to 2020 details how we propose to invest £3.8 billion to meet the priorities set by our customers, protect the environment and ensure that we meet all of our statutory obligations. All this while keeping bills low and providing a fair return to investors to fund the business and investment plans for the future.

The 25 year plan examines how we will maintain and develop our enormous legacy of infrastructure to provide customer services in the changing and uncertain future.

We are currently making preparations to effectively deliver our plans and we are working with Ofwat to provide all the information they require to effectively determine future price limits. Ofwat will conclude the price review process before the end of 2014.

We provide more information about the price review and our business plans in the Strong financial foundations section later in this Strategic Report.

Full details of the plans are available at www.blueprintforyorkshire.com

Our detailed plans

Our Blueprint for Yorkshire The next 25 years

The summary of our five year plan

The Wholesale Water Business Plan

The Wholesale Waste Water Business Plan

The Retail Non-Household Business Plan

The Retail Household Business Plan

Business Performance

We provide an overview of our performance by examining our progress towards each of our six SBOs which summarise our strategy to achieve our vision of 'taking responsibility for the water environment for good'. Our six SBOs shape everything we do and they encompass our commitments to sustainability.

Reported under each SBO we provide:

- a table showing our performance against Ofwat's Key Performance Indicators (KPIs) for the water industry. You can find more information on these measures and our performance in our Risk and Compliance Statement, available at: www.yorkshirewater.com/reports
- a table showing our progress against a suite of annual targets that we set ourselves as part of our drive to achieve our vision and go beyond our regulatory duties. We use arrows to show the trend of our annual performance in the context of our 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 our recent performance, future direction, risks and uncertainties. We have ensured this commentary includes information on all the matters we are legally required to include in our Annual Report.

Trusted company: part of our Blueprint for Yorkshire

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

Measures of our 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: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

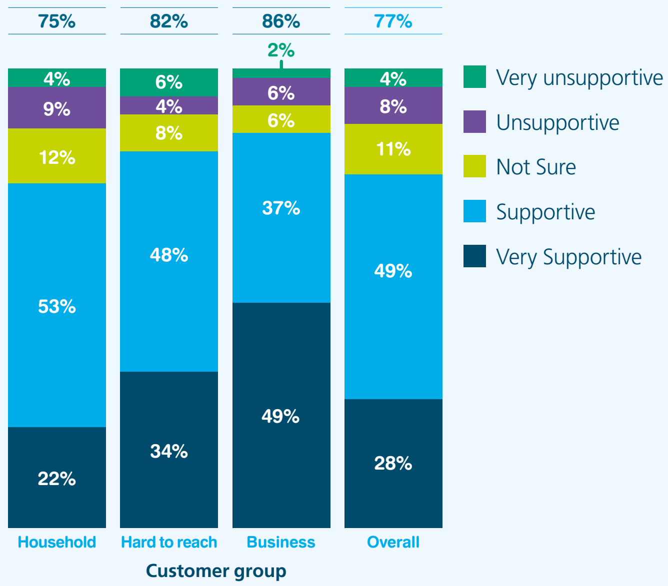
Measures of our ambition to go beyond our regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Overall trend
We are recognised as leaders in customer service by current and future customers.	Launch Phase 1 of our new Yorkshire Water 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. We have made advances in our customer service in practice and we continue with our customer service improvement programme.	↑
We have fair and transparent policies and procedures in place.	Kelda Group 'Colleague Trust' score of 7 out of 10 in our 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.	↔
We are a 'role model' business and seek to be open in everything we do.	Business in the Community (BiTC) Corporate Responsibility Index Gold status, requiring a score over 90%.	BiTC have introduced a new grading system. We achieved 3.5 stars and increased our score to 93%.	↑
Through our brand, our audiences understand who we are and what we stand for.	Develop our sustainability reporting.	Published Sustainability Report in December 2013 and this Annual Report includes first step towards 'Integrated Reporting'.	↑
	The launch of our Blueprint internally and externally.	Blueprint launched in 2013.	↑
An innovative and continually evolving engagement programme in place with all stakeholders.	Launch of our first stakeholder conference.	Stakeholder conference held in July 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 our PR14 plan following our biggest ever engagement.	↑

The arrows show the trend of our annual performance in the context of our long-term goals – further explanation is on page 9.
Further information on our approach to corporate governance is found in the Corporate Governance Report on pages 40 to 47.

We've published plans that set out the journey we will need to take to deliver our customers' priorities and to play our part in the continued success of the Yorkshire region. We called these plans our Blueprint for Yorkshire.

Customer support for our 2015 – 2020 business plan



We've recently completed our biggest ever customer and stakeholder engagement programme. More than 30,000 customers and 100 stakeholder groups helped shape our new business plan.

Delivering leading customer service

Customers have benefitted from real advances in our customer service over the last year. For example, we have extended our services beyond our regulatory duties and we have enhanced our 'close the loop' checks to ensure we have fully met customers' expectations.

Our SIM (Service Incentive Mechanism) performance has risen substantially in recent quarters. Our regulator, Ofwat, developed SIM as a measure of customer service in the water industry. We are 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 we achieved 82 points out of a maximum score of 100. This is up from 78 points last year, and we are working to ensure continued improvement in 2014/15.

We aspire to be utility sector leaders in the Institute of Customer Service's customer satisfaction index (UKCSI). The UKCSI asks customers to rate organisations on key attributes of customer service including professionalism, quality, efficiency, ease of doing business, problem-solving, timeliness and the way complaints are handled.

We continue with our programme of customer service improvements. For example, we are currently developing a new website based on extensive analysis of customer expectation. 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, our aim is to increase the levels of self-service functionality that our website can offer. We will also be using the new website to enhance the quality and format of information we provide for customers and stakeholders.

The Water Act 2014 is introducing greater retail competition, enabling all business, charity and public sector customers to switch their water and sewerage supplier. We recognise that this presents both opportunities and threats to our business and we are monitoring developments closely as we continue to develop our position. We consider the Water Act in further detail in the Strong financial foundations SBO section later in this report.

Maintaining service today and into the future

We need to maintain essential services to our customers whatever the circumstances. We ensure 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 the services that we provide our customers and the environment. Catastrophic events can result in injury or loss of life, and significant damage to the environment and our assets. For our business, this can affect colleague wellbeing, our operations and reputation, as well as resulting in additional costs including liability to customers or loss of revenue.

We manage risks to all hazards through our corporate and operational risk management processes. We have extensive emergency plans to enable a fast and effective response to, and recovery from, an asset or service failure event. Our Incident Management Framework provides a staged response to ensure the effective allocation of resource to any incident.

To ensure that we can provide our services today and long into the future, we invest over a million pounds a day to maintain and enhance the legacy of assets and infrastructure for which we are responsible. This includes over 700 treatment works, thousands of pumping stations and enough pipes to stretch around the world. In 2013/14 we 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 our serviceability performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com/reports

We are planning for long-term challenges like population growth, climate change and decreasing availability of resources. In 2013 we published a suite of documents about our plans for the future, which we collectively called our Blueprint for Yorkshire. One document examines, and is called, 'The Next 25 Years'. Our 'Climate Change Strategy' explains how we are working to ensure we can affordably maintain and enhance our services in the changing climate and cost-effectively reduce our carbon emissions.

Both reports are available at: www.blueprintforyorkshire.com

We are required to publish an annual Risk and Compliance Statement each year by our regulator, Ofwat. In this year's Risk and Compliance Statement our board identified pollution incidents and discharge permit 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 Risk and Compliance Statement publication, available at: www.yorkshirewater.com/reports. We also describe our company performance and management responses to both these risk areas in the Excellent catchments, rivers and coasts SBO section of this report.

Engaging with customers and stakeholders

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

We established an independent Customer Forum to help ensure that our customers had a fair say in our plans. The forum represents the needs of customers and the environment in our region. They challenged us to be more transparent, to strike the right balance between customer needs and environmental leadership, and to do everything we could to keep bills low. We will continue to work with the Forum in the future to ensure that our customers have an on-going say in our plans.

We held a stakeholder conference at the Yorkshire Event Centre in Harrogate in July 2013, to share and discuss our plans. The event was attended by representatives from more than 80 different organisations, including local authorities, NGOs, businesses, academic institutions and investor groups.

We aim to have an innovative and continually evolving engagement programme in place with all our stakeholders. One way we will do this is through our new research and insight team who will manage regular engagement activities and help ensure our decisions are based on customer insight.

We provide more information about our business plan under the Strong financial foundations SBO section of this report. You can find out full details of our customer engagement and our plans 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. We have many examples of where we are already working with others to deliver greater benefits for the region, and we also recognise that there is a need to do more of this.

We are currently formalising our approach to partnership and stakeholder relationship management. This will help us to ensure we manage stakeholder relationships in a tailored way that best suits both parties, and that we are effective in developing partnerships where they have the biggest benefits for our customers and wider society.

We have worked in partnership with various organisations for many years. For example we:

- work closely with the Environment Agency and Local Authorities on the region's flood management by sharing data and hydraulic models, and sharing resources in emergencies;
- are 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 our community

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

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

Benchmarking our approach to being a responsible business

We use the Business in the Community (BiTC) Corporate Responsibility Index as one way to benchmark our performance against our peers each year. We use the BiTC Index because it is the UK's leading voluntary benchmark of corporate responsibility. In 2013/14 our score increased to 93%, up from 90% the previous year.

We have also been awarded a BiTC Big Tick in their Responsible Business Awards 2013/14. The increase in our score and the success in winning a Big Tick provides external assurance that we are among the leaders in corporate social responsibility and sustainability.

We provide information about our CR Committee in the Corporate Governance Report on page 46.

Managing colleague trust

The strong performance we achieved in 2013/14 was a result of the hard work, commitment and energy of our colleagues. It was a demanding year of change for many of our people, not least because of an organisational restructure at the same time as significant operational challenges, all of which followed shortly after change to our pension plans. In addition, colleagues were affected by the external national debate about us and other utilities in the media.

Generally our colleagues tell our business leaders that they are proud to work for Yorkshire Water as a provider of essential and quality water and waste services. However, through our internal surveys and regular leadership feedback sessions, colleagues told us that trust fell in the first part of 2013/14. Listening to this, we 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, our business leaders have made colleague trust a business priority in 2014/15. Trust is already a strong foundation for our company and our 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.

A five year pay deal comes to an end in 2014/15 and future arrangements as well as longer-term people strategies will be developed to prepare the company for success in the next five year period 2015 – 2020.

Further information on colleague engagement and inclusion is provided in the section 'Employees and employment policies' in the Directors' Report on pages 65 to 66.

Championing diversity and human rights

We recognise the strength of a diverse workforce that represents the society we serve.

We are working to ensure a gender balanced workplace and are actively engaged in internal and external programmes to redress our gender imbalance. We are proud that our board has a strong female representation. We want to go further throughout our business and continue to influence others on matters of diversity. Below we provide a gender breakdown for Yorkshire Water.

The figures show our 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

Our 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: www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

We recognise that the successful implementation of our Human Rights Policy is heavily influenced by the cooperation and support of our supply chains. Accordingly, we actively manage and monitor our supply chains to ensure working practices are consistent with our policy.

Further information on our approach to diversity is provided in the section 'Employees and employment policies' in the Directors' Report on pages 84 to 86.

Our corporate structure and tax position

We provide below an explanation of our corporate structure and tax position. In addition to the information we provide below, a summary overview can be found at: www.yorkshirewater.com/reports

Corporate structure

Yorkshire Water is the principal subsidiary of the Kelda Holdings Limited group of companies (the Kelda Group). At Yorkshire Water, and throughout Kelda Group, we abide by the following overriding principles in everything we do regarding our corporate structure and approach to taxation:

- we have and follow a tax policy which requires that we fully comply with the letter and the spirit of UK tax law;
- we structure ourselves to be able to borrow money at the lowest possible rates in order to support low bills for our customers and fair returns for our investors; and
- we do not establish overseas companies in order to avoid paying UK tax.

Yorkshire Water and Whole Business Securitisation

In order to borrow at the lowest possible rates, Yorkshire Water established a financing structure known as a 'Whole Business Securitisation' (WBS) in 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business to invest in. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case. Customers share the benefit of the lower rates of interest because the rates at which the industry borrows are factored into prices.

This WBS works by placing a protective ring-fence around Yorkshire Water's business which includes: the way it operates; the way it trades with other Group companies; and the way it finances itself. The protections include limits on borrowings, dividends and the ability to lend money to other Kelda companies. The protections also require profits to more than cover the amount of interest that Yorkshire Water pays.

To enable the WBS it was necessary for Yorkshire Water to establish three companies incorporated in the Cayman Islands. These are:

- Yorkshire Water Services Bradford Finance Limited (issues new corporate debt);
- Yorkshire Water Services Odsal Finance Limited (issuer of legacy corporate debt); and
- Yorkshire Water Services Odsal Finance Holdings Limited (a non-trading, holding company).

Due to technical reasons applicable at the time that our owners purchased the Kelda Group and we set up the WBS, it was necessary to establish these companies in the Cayman Islands in order to raise debt listed on bond markets.

The technical requirements for these companies are no longer relevant but the cost of unwinding this structure is prohibitive. All three companies are wholly and exclusively resident for tax in the UK and file their tax returns only with Her Majesty's Revenue and Customs (HMRC). This means that any profit or loss made by these companies is subject only to UK tax.

Other Kelda Group companies

Other companies in the Kelda Group fall into three categories.

1. Those operating and resident for tax in the UK

The following Group companies operate in the UK and are wholly and exclusively resident for tax in the UK:

- **Kelda Water Services Limited (KWS)** – operates water and waste water contracts across the UK;
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management; and
- **KeyLand Developments Limited (KeyLand)** – manages the Group's surplus property assets, either on its own or in partnership with outside organisations.

2. Those incorporated overseas and resident for tax in the UK

In addition to those companies registered in the Cayman Islands, noted above, the Group contains two other companies that are incorporated in jurisdictions outside the UK but which are wholly and exclusively resident for tax in the UK:

- **Kelda Holdings Limited** – the ultimate parent company of Yorkshire Water. The company is incorporated in Jersey to allow greater choice as to the manner in which distributions can be made to shareholders; and
- **Yorkshire Water Holdings BV** – a subsidiary incorporated in the Netherlands. This company is a legacy from previous activity and does not trade.

3. Those incorporated and resident for tax overseas

The Group contains three companies that are incorporated and are resident for tax in jurisdictions outside the UK:

- **Kelda Group Inc. and KGI Bridgeport Company** – two subsidiaries that administered a sewerage contract in Connecticut until the contract ended in December 2013. The companies are resident for tax in the USA and are in the process of winding down their operations. The companies did not trade with the rest of Kelda Group; and
- **Ridings Insurance Company Limited** – insurance company operating and resident for tax purposes in the Isle of Man. The Group operates this insurance company to allow flexibility in how it insures its public liability where the insurance market proves uneconomical or unable to supply the required cover. In 2013/14 this company's turnover was less than £250,000.

Tax position

Total tax contribution

Yorkshire Water make significant contributions to the UK Exchequer each year, through payment and collection of a wide range of taxes, duties and rates. These are summarised in the table below.

	2013/14 £m	2012/13 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	**56.8**	54.8
Employer's NIC	**7.1**	7.1
Carbon taxes	**3.7**	3.7
Abstraction licences and direct discharges	**10.3**	10.0
Fuel duty	**1.2**	1.3
	79.1	**76.9**
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water, collected on behalf of employees		
Employee's PAYE	**13.1**	13.5
Employee's NIC	**6.0**	6.2
	19.1	**19.7**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**98.2**	**96.6**
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer VAT	**13.3**	12.2
	13.3	**12.2**
Total contribution	**111.5**	**108.8**

Corporation tax

While operating in compliance with our taxation policy which requires full compliance with the letter and spirit of UK tax law, Yorkshire Water has not been required to pay any corporation tax in recent years. There are three main reasons for this corporation tax position, which we explain below.

a) Under UK tax law the starting point for calculating taxable profit is 'profit before tax' as shown in the profit and loss account in the statutory financial statements. Profit before tax is arrived at after deducting all interest costs incurred on the company's borrowings.

Yorkshire Water has borrowed significant sums to invest in infrastructure and improve water and waste water services to meet customer expectations and legal requirements. Customer bills have been kept low by borrowing this money rather than asking customers to pay up-front.

In accordance with UK tax law, interest costs on these borrowings are tax deductible. These interest costs reduce our taxable profits and the reduction in tax payable due to the interest directly incurred by Yorkshire Water is reflected by a reduction in customer bills.

YW's total net debt at 31 March 2014 was £4,560.4m (2013: £4,432.7m), net of inter-company debtor loan balance of £1,009.0m.

b) UK tax laws also require that a further adjustment be made to profit before tax. This is because UK tax law does not allow a tax deduction for depreciation as it has been charged in the financial statements, but instead allows a tax deduction for what are known in UK tax law as 'capital allowances'.

As owners of essential infrastructure, our assets are significant. In the past, due to the rate at which capital allowances are given under UK tax law, we have received a timing benefit that has reduced our taxable profit. The benefit of capital allowances only delays the tax payable and that 'delayed' amount is set aside in the accounts in the deferred tax position.

c) Under a long established UK tax law concept known as 'Group Relief', Yorkshire Water can offset tax losses of other Kelda Group companies against its taxable profits, including those interest costs incurred by other Kelda Group companies.

The Kelda Group was purchased by its shareholders in February 2008, choosing to partly fund their acquisition with bonds (debt). These bonds were issued via Kelda Eurobond Co Limited. This company is incorporated and resident for tax in the UK. The interest on Kelda Eurobond Co Limited debt and other indebtedness of intermediate financing companies is deducted from our taxable profits.

These bonds meet the eligibility requirements of HMRC's 'quoted Eurobond exemption'. This enables companies and investors to avoid the practical and administrative issues of having to reclaim from HMRC the tax withheld on the interest that is paid on these bonds if that tax has also been paid in their resident country for tax. It is therefore an incentive to invest in the UK as it is designed to reduce administrative burden or 'red tape'.

The bonds are listed on the Official List of the Channel Islands Securities Exchange Authority Ltd (CISE). The CISE is a stock exchange recognised by HMRC for the purposes of the quoted Eurobond exemption. These bonds are listed on the CISE rather than the London Stock Exchange (LSE) for ease of administration. Since the bonds are not traded, the greater administrative requirements imposed by the LSE are not necessary.

More information in relation to Kelda's Eurobond debt can be found in this year's financial statements of Kelda Eurobond Co Limited.

Revisions to prior year's taxation matters

During 2013/14, we reached agreement with HMRC on taxation matters that affected a number of prior years. We had made provisions in previous years to manage uncertainty in relation to capital allowances on capital expenditure. As discussions have been concluded regarding the appropriate tax treatment, the relevant tax provisions that were previously included in our financial statements have now been released and are reflected in prior year tax credits to the company's profit and loss account.

Deferred tax credit

As noted in the description above on capital allowances (note b), accounting profit for the year and taxable profit are not equal. Timing differences exist where amounts are credited or charged to a company's accounts in a particular year but brought into account for tax purposes in a different year. Under UK Generally Accepted Accounting Principles, a company must provide (in the form of a deferred tax creditor) for the additional tax that will arise as a result of these timing differences in future periods.

Yorkshire Water's deferred tax credit for the year is £49.6m and is a result of a change in accounting estimate.

The credit is mostly as a result of the following:

- a reduction in the future UK corporation tax rate from 23% to 20% that has been reflected in the deferred tax liability provided for by the company. This is a change in accounting estimate only and reduces the company's deferred tax liability by £51.6m;
- a change in the discount that the company has reflected in respect of its deferred tax creditor. The discount reflects the time value of money and has reduced. This is a change in accounting estimate only and has increased the company's deferred tax liability by £32.7m;
- current year timing difference increasing the deferred tax liability by £1.7m; and
- the agreement with HMRC in relation to capital allowances, referred to above, which has reduced the company's deferred tax liability by £32.3m.

Further detail of our corporate taxation position and deferred tax accounting are set out in note 4 to the financial statements on page 76. Further information on our financial governance and performance can be found in the Strong financial foundations SBO section and throughout the remainder of our Annual Report and Financial Statements.

Safe water: part of our Blueprint for Yorkshire

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

Measures of our regulatory compliance	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: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

*Calendar year measure

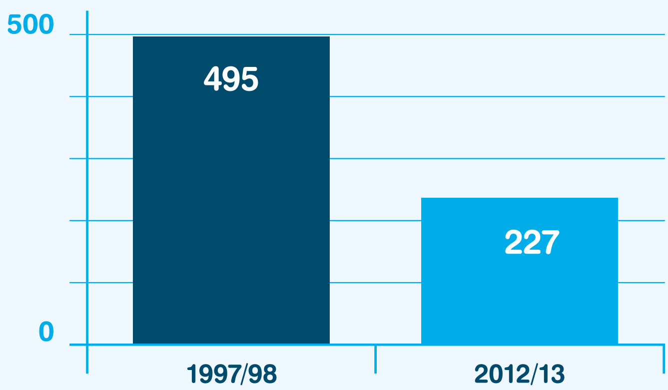
Measures of our ambition to go beyond our regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Overall trend
Our 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.	↑
We are 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 our plan for 2015 – 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 our plan for 2015 – 2020.	↑
We are recognised as an industry leader in the promotion of global safe water.	Agree our 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.	↑
We are 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.	↔
	Establish recreational stakeholder forum.	Recreational stakeholder forum to be developed.	↔

The arrows show the trend of our annual performance in the context of our long-term goals – further explanation on page 9.

Protecting public health is our primary duty. Drinking water quality in Yorkshire remains amongst the best in the world.

Sewer flooding
Total properties on the sewer flooding register at end of the year



We're working in ever closer partnership with other flood management authorities to manage and mitigate flood risk in the region.

Putting people's health, safety and wellbeing first

To achieve our vision and SBOs, it is essential that we work to prevent harm and protect health across all stages of our business operations, environments and communities.

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

We:

- comply with our duties under the Health and Safety at Work etc Act 1974 and all other relevant legislation, and where reasonably practicable we will seek to exceed legislative requirements;
- thoroughly identify our hazards and risks and implement appropriate and effective controls to eliminate or reduce them. Nothing we do is so important that we cannot take the time to do it safely;
- ensure the competence of all our employees by providing suitable training, monitoring, supervision and leadership to ensure that our OH&S policies and procedures are complied with and standards are maintained;
- ensure the competence of all our suppliers, partners and contractors who work on behalf of the company by assessing and monitoring their OH&S management systems and performance;
- ensure 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 also applies to members of the public visiting areas of our rural estate that are open to public access;
- manage all our 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 review, challenge and set our OH&S objectives and performance through our business planning cycle; and
- aim to meet all of the above promises at an affordable cost to our customers.

Our OHSMS is designed to be compliant with the standards and expectations of OHSAS 18001 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 our 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; 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; and
- assessment and review – identifying and managing health and safety risks; accessing and following competent advice and monitoring, reporting and reviewing performance.

Our 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 we understand and learn from our business risks, performance, incidents, injuries, inspections and audits.

Maintaining excellent drinking water quality

Protecting public health is our primary duty. Drinking water quality within Yorkshire remains excellent. In 2013/14, our compliance increased to 99.96% of hundreds of thousands of samples meeting tight regulatory standards. We completed a large service reservoir inspection and improvement programme in 2013/14 to contribute to this performance improvement and manage a risk of microbiological failures. Further details on our 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 of our catchments. The more polluted raw water is, the more we need to treat it to make it fit for drinking. We use a twin-track approach to ensure that our customers receive high quality drinking water despite the deteriorating raw water quality. We are investing to enhance treatment capabilities where the probability of failure presents an unacceptable risk to our customers. Our long-standing programme of capital investment will continue with further investment in the period from 2015 to 2020, including action at six large treatment works. We are also investing in catchment management as our primary long-term response to address the issue at source. We discuss our approach to catchment management in the section on the Excellent catchments, rivers and coasts SBO.

Reducing flood risk

We continue to work hard in playing our part in managing and mitigating flood risk in the region. Our principal role in flood management is to provide an effective drainage function through our sewer network. In 2013/14 we removed 66 properties from being at risk of sewer flooding and reduced the overall number of properties at risk of sewer flooding on our regulated risk register to 204 across the region. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. Further details on our sewer flooding performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com/reports

We 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. We had representatives at the two Strategic Command Centres which operated in East and North Yorkshire to manage the response. In Hull we utilised our assets to remove 35,000 tonnes of water from the city. We maintained our services despite damage to our assets.

We were also able to offer assistance to the Environment Agency (EA) during the extensive flooding to the south and west of the UK during the early part of 2014.

We are working in ever closer partnership with other flood management authorities, for example:

- we have worked with Calderdale MBC and the EA on reducing flood risk in the Calder Valley. We are gaining a fuller understanding of the catchment and its interactions by using the EA river model of the area alongside our own sewer network model. A similar approach has also been adopted in Goole with East Riding of Yorkshire Council and the Goole & Airmyn Drainage Board;
- by sharing information with the Lead Local Flood Authorities we identified relatively low cost joint funding flood schemes, notably in Sheffield and East Riding of Yorkshire; and
- we continue to play an active part in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships, by sharing our future flood and investment plans and informing the RFCC of our investment framework and plans.

We are also investing to protect our own assets from flood risk to enhance the resilience of our services. For example, we have invested at Hull and Market Weighton to provide a 1 in 1000 year level of protection at these key sites, and we are investing at Moor Monkton in 2014/15.

Extreme weather and urban growth are causing increasing pressure on our sewer network and the risk of flooding. We are planning for the future and produced both our climate change strategy and storm water management position paper in 2013. We will continue to invest to mitigate the risk and manage the consequences of sewer flooding.

The company 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, we have been trialling an approach of customer engagement combined with above ground collection of FOGs in an area of Bradford where we have observed repeated sewer blockages.

Supporting global safe water

As part of the 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, 3.4m people die each year from water related diseases and 780m 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 our land

We are one of the largest land and open-water owners in Yorkshire. We own approximately 29,000 hectares of land which includes upland moors, woodland of mixed age and species, reservoirs, and the land that we rent to farmers. For many years we have provided open access to much of our large estate, particularly the woodland and upland moors. This has provided a wide range of recreational opportunities that include 100km of permissive footpath, 33km 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 1100km of public rights of way and Countryside and Rights of Way (CRoW) access land.

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

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

Excellent catchments, rivers and coasts: part of our Blueprint for Yorkshire

excellent

Excellent Catchments, Rivers and Coasts: We maintain and improve the water environment from source to sea, and influence others to do the same.

Measures of our 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: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

*Calendar year measures

Measures of our ambition to go beyond our regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Overall 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 our plan for 2015 – 2020.	
	Sign off Safeguard Zones (SGZs) 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 with formal approval and ownership on-going.	
To fully understand and manage our assets and their impact on the environment.	7 river catchment systems with plans in place.	Our investment plans have been defined with the EA and we 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 our annual performance in the context of our long-term goals – further explanation on page 9.

We're working in partnership to restore thousands of hectares of iconic Yorkshire moorland to help protect the environment and the quality of the raw water we abstract.

We're finding innovative ways to enhance river life, like our first fish pass at Rodley in Leeds, as shown in the picture opposite.

We're investing £110m and working in partnership to ensure Yorkshire has a 'Coast to Boast About'

Reducing pollution and enhancing river water quality

We are responsible for collecting, treating and returning about 1 billion litres of waste water safely back to the environment every day. We have delivered a step change in river water quality over the last 20 years by investing to enhance waste water treatment capabilities. We recognise that more needs to be done and we continue to focus on driving further improvement.

We improved our performance on waste water treatment in 2013/14, with discharge permit compliance reaching 98%. We also continued our on-going capital investment programme, responding to new legislative drivers and population growth. Plans are in place to further improve our 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 our 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, and 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 our best ever performance in 2012 with 1.63 incidents per 10,000km of sewer, increasing to 3.27 in 2013.

Overall, our 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. Our plan includes a range of people, process, technology and capital investment activities. In 2014 we will be trialling a new proactive intervention technique using weather trigger levels. We know that dry spells cause blockages that can lead to pollution incidents so we 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.

We have worked with the EA to model the impact of our discharges across the region to understand the ecological implications. Together, we have defined a programme of environmental investment and investigation needs, totalling over £300m for the period from 2015 to 2020. We will further enhance our waste water treatment capabilities where we have confirmed biological and/or chemical issues that need to meet legislative standards. Where there is uncertainty, we will be carrying out investigations to inform our long-term approach.

While delivering environmental water quality benefits, the new waste water treatment capabilities described above are often capital and carbon intensive. We have been working in partnership to trial alternative approaches. For example, at Cudworth Dyke in Barnsley we are investigating if river restoration could improve water quality.

We plan to increase our efforts in this area because Defra recognises that such activities can contribute significantly to the overall objective of the Biodiversity Strategy for England, 'Biodiversity 2020'. For example, we have prioritised a series of our sites to remove or bypass barriers to fish passage. In 2013 we opened our first fish pass site, at Rodley in Leeds.

Investing in the region's bathing waters

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

We are 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.

Together, our joint efforts have 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.

We are very pleased that 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, including our £110m investment, is expected to secure more beach awards for the region. For example, our £50m investment at Scarborough is aimed at helping Scarborough South Bay achieve Blue Flag status in a few years' time.

Protecting raw water quality

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

We invest in enhanced water treatment works capabilities to ensure our customers always receive the highest quality drinking water. We describe more about this in the Safe water SBO section.

In parallel to investment at the water treatment works, we know that the issues need to be addressed at source. Our catchment management programme is our 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 our region because they are the source catchments for a large proportion of our drinking water.

In recent years we have invested in extensive monitoring, research and innovative land maintenance and restoration techniques. Through multi-agency partnerships we have delivered a range of industry-leading activities, including for example working with our land tenants and Natural England on Keighley Moor to deliver catchment restoration in practice.

In 2013, together with the EA, Natural England and the National Farmers Union we have started 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. We also worked in partnership with the EA to develop plans for each of the seven Water Framework Management catchments in our region.

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

In early 2014, our 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. We are working with a range of relevant organisations including the Moorland Association, Natural England and the National Farmers Union.

Our 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. We will also be investigating nitrate and other pollutants that present risks to a number of our groundwater sources. We will work on all of these activities in partnership where this is mutually beneficial.

Managing invasive species

Invasive species present increasing challenges to the land and water we manage, and to our assets and operations. We have drafted a policy on our approach to invasive species and are currently formalising this internally. We have shared the draft policy with our independent Environmental Advisory Panel and received their support for our approach.

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

Water efficient regions: part of our Blueprint for Yorkshire

Water Efficient Regions:

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

Measures of our 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: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

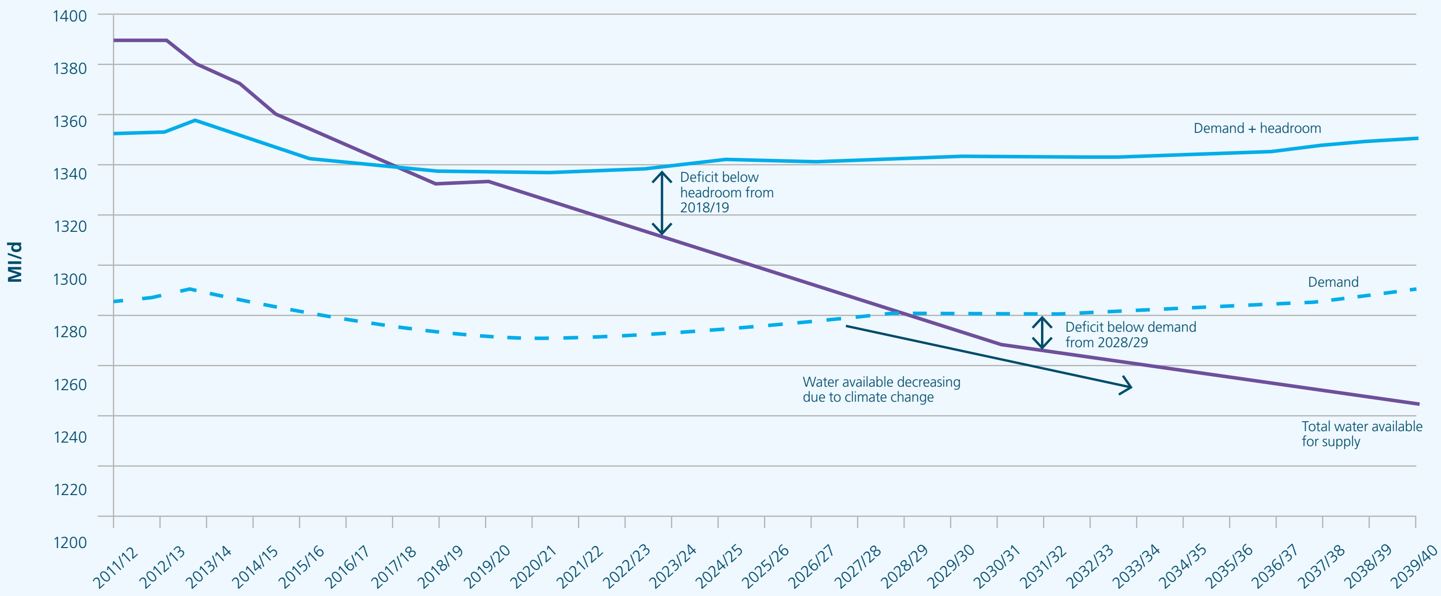
Measures of our ambition to go beyond our regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Overall trend
Our own use of water significantly reduced. All our non-potable water requirements delivered with non-potable water.	Baseline our water use and identify opportunities for savings (excluding leakage which is covered separately below).	Water use baselined and continue to develop our understanding and approach.	
We and our customers understand and drive efficient water use, with no impact on long-term income generation.	Domestic customer water efficiency saving 1.55 mega litres per day (Ml/d) a year.	Domestic water reduction of 2.3 Ml/d.	
	Business customer water efficiency saving 4 Ml/d a year.	Business customer water reduction of 4.2 Ml/d.	
Achieve our Sustainable Economic Level of Leakage (SELL) for the period 2015-2020.	Maintain leakage level at 297 Ml/d.	We beat our target and achieved 282 Ml/d. This performance continues our long-term trend of improvement with annual fluctuation.	
	Reduce our average night pressure by 1.5 metres compared to a baseline of 49.5 meters.	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 our annual performance in the context of our long-term goals – further explanation on page 9.

We have a plan to meet the needs of the growing population and the challenges presented by the changing climate.

The balance between water supply and demand



We gave away nearly 128,000 free water saving devices in 2013/14, more than ever before.

Securing water supplies

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

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

The risk of water shortages or supply interruptions is a constant priority for us because of the consequences to our customers, and to our operations and finances. In 2013/14 we published our new Drought Plan and the revised draft of our new Water Resources Management Plan (WRMP). Our detailed assessments for these plans confirm that climate change presents a growing threat to our ability to maintain the balance between supply and demand.

We are well placed to manage this threat. Water resources management is our most mature area of current resilience and future planning. We have maximised the benefit of the good range and balance of water supply options in our region by developing infrastructure that allows us to move water around the region to where it is needed. We call this the Yorkshire grid and it covers 99% of our customers following completion of an extension to Scarborough in 2013. We manage our grid to offer one of the most resilient water supply systems in the country.

Our revised draft WRMP describes how we 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

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

In 2013, we published our plans for the period from 2015 to 2020. These plans describe our operational and investment programme to manage water services. Our activities will include increasing network storage and working on projects to manage network pressure. To allow us to respond to bursts and other network problems more effectively, we will be enhancing our visibility of the network by installing further data loggers that automatically send data to our regional command centre every 30 minutes. Water efficiency is central to our plans and we describe this opposite.

Reducing the company's own water use

In 2013/14 we assessed our own water use to help inform our future efforts to be more efficient.

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

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

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

Working with customers to save water

We work hard to actively assist our domestic and business customers in valuing water and becoming water efficient. Our goal is to deliver tangible water efficiencies and sustainable behavioural change.

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

We have achieved our water efficiency targets since we introduced them in 2010 and are committed to continuing to do so into the future. More information can be found on the water efficiency section of our website at: 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.

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

We continue to engage in the evolving national approach to abstraction licence reform and the trading and movement of water nationally.

Sustainable resources: part of our Blueprint for Yorkshire

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

Measures of our 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: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

*Calendar year measure

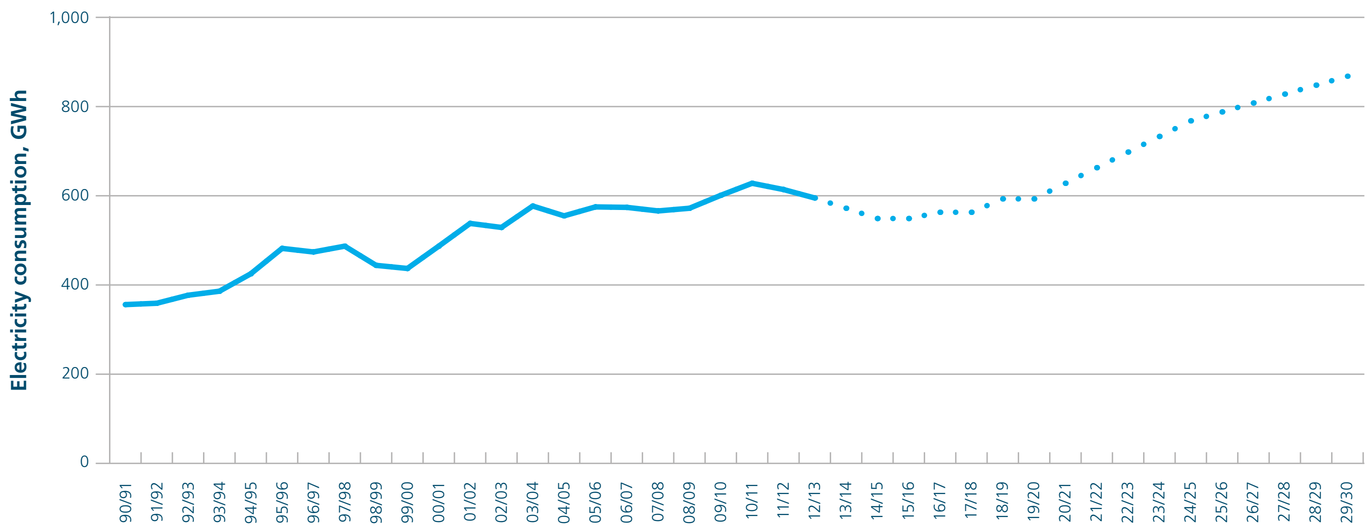
Measures of our ambition to go beyond our regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Overall trend
A Sustainable resources culture is embedded in our organisation.	100% of Kelda Group colleagues are engaged with energy awareness.	Virtually all colleagues engaged through our CO_2llaborate campaign.	
	7/10 in our internal employee survey regarding Sustainable resources.	Last Sustainable Resources score was 6.6.	
	20% reduction in head office energy use.	11% achieved and further plans in progress.	
Our 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.	We continue to develop our sustainable contract framework.	
	Divert 75% waste 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.	£285,000 income for Yorkshire Water and partnerships continue to develop.	

The arrows show the trend of our annual performance in the context of our long-term goals – further explanation on page 9.

We've reduced our operational greenhouse gas emissions by about 18% since 2008/09.

Our past and projected electricity demand



We are generating more renewable energy than ever before, mainly by re-using sewage sludge.

Reducing greenhouse gas emissions

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

We have published details of our emissions every year since 2004, continually improving our approach each year. Since 2008 we have also been required to report our emissions to our regulator, Ofwat. Our emissions for 2013/14 and the previous year are shown in the table below.

We follow 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. We are actively involved with each update and use the most recent version of the tool to compile our annual carbon footprint each year. Our 2013/14 emissions are calculated using CAW version 8.1, released in late 2013.

We will continue to monitor and publish our operational emissions and we will use this data to prioritise our resources to deliver emissions reduction. We continue to develop our accounting methodologies for embodied emissions and how we use these to inform our 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 ($kgCO_2e$)		
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 the atmosphere. We release Scope 1 emissions from: burning fossil fuels on our sites; driving company vehicles; and releasing gasses during treatment processes.

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

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

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 table opposite 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 ours, approaching 600 GWh each year. Our electricity use results in approximately 75% of our operational emissions and it is one of our largest and most volatile operating costs.

We respond to these business risks and opportunities by minimising the electricity we need and maximising our ability to generate our own electricity. This approach helps us to reduce our emissions and keep our costs low too.

We have made great strides in recent years, successfully reducing our 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. We have achieved this through a variety of approaches, including cost-effective capital investment, operational efficiencies and targeted training.

The energy used at our head office site in Bradford accounts for less than 1% of our total carbon footprint. However, in accommodating over half of our staff, and with regular visitors and guests, every effort is made to set an example in demand reduction and renewable energy culture. While we didn't achieve our ambitious target for a 20% reduction in just one year, we are pleased to have reduced consumption by an impressive 11%. Our efforts continue.

We have 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 we completed two major investments and dramatically increased our ability to generate renewable energy from sewage sludge. Bradford's waste water treatment works is now approaching self-sufficiency 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.

We forecast a sharp increase in our consumption and cost of electricity if we do not continue to act. This is caused by a range of factors, including national and global uncertainty in energy sources, the cost of replacing and decarbonising the UK's aging infrastructure and ensuring our compliance with new environmental water quality legislation which increases our demand. To mitigate this risk we continue to plan to reduce our electricity demand and grow our ability to generate low carbon energy.

Creating a culture that helps us maximise our efficiency and resilience

We are 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 we developed a new and bespoke web-based environmental awareness course. It provides training on all of Yorkshire Water's environmental impacts, focusing on energy consumption and energy efficiency. So far over 1,500 (40%) of Kelda Group colleagues have completed the training.

We have also introduced a more detailed training programme for those in the business who run and optimise our 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 our cultural change programme 'CO_2llaborate to use less'. Virtually every single colleague has received some form of carbon and energy engagement through our communications and training programme. Our programme is continuing and evolving to ensure further progress.

Turning waste into resource

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

Sewage sludge is a large and renewable resource. Through a variety of innovative approaches we are now able to generate renewable, low cost, low carbon energy from sewage sludge. We describe above our growing portfolio of energy generation assets.

After treating the sludge we also create products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts. During 2013/14 we completed an action plan and improved performance to 100% compliance with sludge disposal regulations. We forecast to maintain compliance at 100% in 2014/15. 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

We have been highly successful in increasing the rates of recycling from our offices, construction sites and operational sites. We beat our 2013/14 target to divert waste from landfill, increasing this to almost 90%.

In 2013/14 we also developed a plan to implement a number of identified opportunities to work in partnership with mutual benefit to us and others. For example, in October 2013 we established fat, oil and grease (FOGs) collection facilities for domestic customers in a known sewer blockage hotspot in Bradford.

By helping customers to use their sewers more appropriately, we are reducing our need for avoidable sewer maintenance work and the risk of sewer flooding and pollution while a third party can collect the energy-rich material and create energy and a financial return. We are now working to develop this into a full scale operation.

A range of other projects have been identified and are at various stages of investigation and implementation. In 2014/15 and beyond, we will be continuing to grow the opportunities for mutual benefits from partnership working on wastes and resources.

Achieving our SBO ambitions throughout our supply chain

Working with the best suppliers is vital to ensure we continue to improve our performance and provide a better service to customers. We also recognise and manage a risk from interruptions to our supply chain. Our ambition is for our global supply chain to share our commitment to the continuous improvement of the water environment and wider sustainable development.

In 2013 we published our new sustainable supply chain policy. This applies across all our supply chain activities and seeks to articulate a consistent approach with straight forward expectations. Our policy can be found at: www.yorkshirewater.com/about-us/supplying-us.aspx

We will work with our supply chain to ensure security of essential supplies, continually reduce demand for depleting natural resources and to enable a cycle of social, economic and environmental improvements. We expect a similar message to be passed through the supply chain by everyone we work with.

Dependent on the nature of a contract, our current evaluation process will consider areas such as energy, resource efficiency, waste management, human rights, labour practices and legal compliance. We seek to further our approach by formally embedding a new framework that consistently incorporates a holistic set of sustainability criteria. We have started to develop our sustainability assessment criteria and further work will continue in 2014/15.

Our environmental policy and governance

Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient, effective and proper conduct of our business. Central to our environmental governance and risk management is our ISO 14001 accredited Environmental Management System (EMS). We have been continually accredited to the ISO 14001 standard since 2004 and we are now preparing for the upcoming changes to the ISO 14001 standard.

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

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

Strong financial foundations: part of our Blueprint for Yorkshire £

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

Measures of our regulatory compliance and financial health	Target	Current year	Previous year
#Operating profit	n/a	£330.2m	£331.5m
*Post tax return on capital	n/a	4.3%	4.9%
#Net debt	£4554.3m	£4560.4m	£4432.7m
#Adjusted net debt to Regulatory Capital Value (RCV)	77.6%	79.3%	79.8%
*Credit rating	Baa3	Baa3	Baa3
*Gearing	75.8%	77.7%	78.7%
*Interest cover	1.33	1.38	1.42

* Ofwat's financial Key Performance Indicators for the water industry, definitions available at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

Other indicators of our financial performance, defined in the Appendix to this Strategic Report

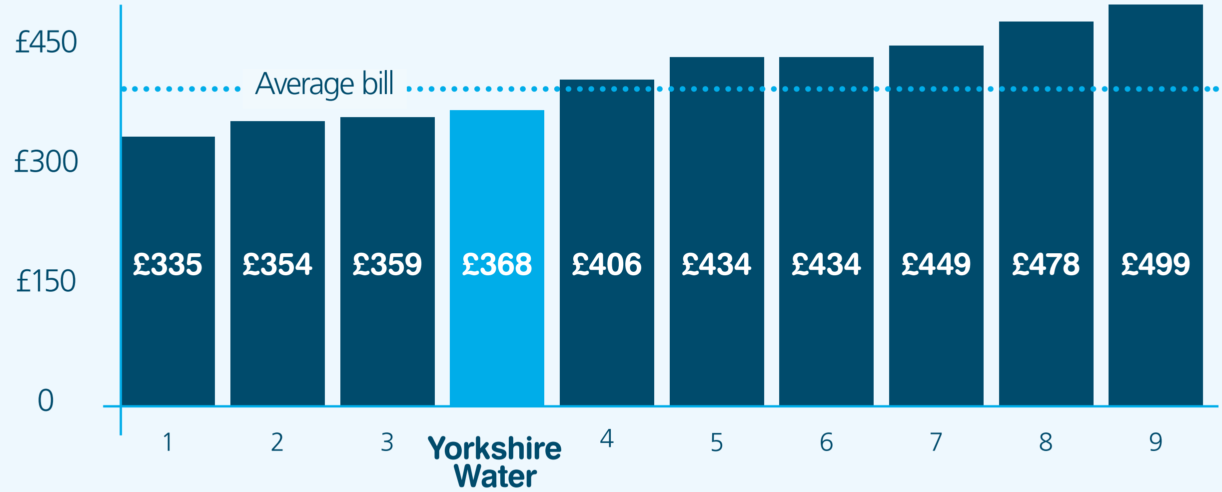
Measures of our ambition to go beyond our regulatory duties

5 year milestone	2013/14 target	2013/14 performance	Overall trend
Achieve our business plan targets.	Work towards our business plan targets.	Cash, ratio's and capital on target. EBITDA behind by less than 1%.	
Meet our regulators', customers' and shareholders' expectations.	Undertake exemplary regulator, customer and stakeholder engagements to ensure we meet expectations.	Strong support received for our plan for 2015 – 2020 following our biggest ever engagement.	
To be an attractive investment, while balancing this with meeting our shareholder and customer needs.	Fund our business efficiently by exceeding credit rating agency expectations.	All borrowing requirements achieved at low rates.	
We have a well embedded affordability strategy and a single affordability measure.	Establish the best way of tracking affordability strategy progress.	Affordability strategy and approach to tracking progress available in draft.	
We understand our customers as individuals and tailor debt strategies to minimise bad debt.	Better understand the support we can provide to vulnerable customers.	New agreements with credit reference agencies are delivering positive results.	
Customers recognise the services they receive from us are good value for money.	No 2013/14 target.	Over 70% of customers rated our service as good value for money in the most recent Consumer Council for Water survey.	
We understand opportunities that future markets present.	Monitor and increase our understanding of the markets.	Monitoring evolving markets.	
Risk management is embedded in our culture with a consistent and integrated approach.	Understand and develop measures of risk which are of value to all stakeholders.	Risk understanding continues to develop.	
Evaluate the potential to increase income streams through the development of retail and upstream wholesale competition.	Undertake review of business retail strategy.	Monitoring and assessing national developments closely to inform our strategy.	
An adaptable and innovative approach to using our land resources to maximise SBO outcomes and value.	Undertake strategic review of the Kelda Group land ownership.	Review of land complete and feeding into developing land strategy.	

The arrows show the trend of our annual performance in the context of our long-term goals – further explanation on page 9.

Our Blueprint for Yorkshire ensures we can continue to provide excellent water and waste water services, protect the environment and prepare for future challenges from population growth and climate change...

Average annual combined water and waste water household bill
Water and sewerage companies 2013/14



...all while ensuring customer bills will not increase by any more than the rate of inflation. Find out more at blueprintforyorkshire.com

Governing our financial performance

Turnover increased by 5.1% to £984.2m (2013: £936.2m). The favourable impact of the increase in tariffs was partially offset by a reduction in demand as a result of continued water conservation and commercial decline compared to 2012/13 as well as domestic customers opting to switch from unmeasured to measured tariffs.

Operating profit decreased by 0.4% to £330.2m (2013: £331.5m) driven by the increase in operating costs noted below.

Operating costs have increased by £49.3m or 8.2%. The increase is due to the impact of inflation on input costs, higher depreciation as a result of a revised infrastructure renewals charge based on the latest forecast capital programme and significant capital investment and the effect of increased investment in customer service and waste water assets.

Net interest payable before exceptional items decreased from £193.3m in 2012/13 to £188.0m in 2013/14. The year on year movement has been largely driven by a reduction in the Retail Price Index (RPI) interest accrued on the index linked swaps. For more information on the index linked swaps refer to notes 3 and 13 of the statutory financial statements.

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 our financial foundations.

In December 2013 we published our 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. We developed a plan which aligns with our customers' priorities and reflects our aim to invest for a sustainable future while keeping bills affordable.

Between 2015 and 2020 we plan to spend £3.8 billion to deliver the resilient services customers and stakeholders told us that they need, and 95% of this expenditure relates to our customer's highest priorities. We will need to borrow an additional £1.4 billion from investors to do this.

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

In 2013/14 we completed our biggest ever customer and stakeholder engagement campaign to inform the development of our business plan for the period 2015 – 2020. Overall 77% of those asked supported our proposals. We explain more about this in the Trusted company SBO section.

We are currently making preparations to effectively deliver our plan, deliver the reduced prices and deliver fair returns. We are 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.

We believe we have provided robust plans that meet customer and legislative requirements, however there is a risk in that Ofwat is able to alter our plans which would have significant consequences for our future operations, investments and financial performance.

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

Ensuring affordability and managing customer debt

We recognise that many customers are struggling with the cost of living. Our customer bills are already some of the lowest in the country and we are committed to doing everything we can to keep bills low. With that in mind, we 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 our new business plan, we propose to maintain this saving for customers through to 2020.

By becoming even more efficient and by reducing returns to investors we can ensure bills stay in line with inflation while maintaining and enhancing the services we provide 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 in the price limits at each Price Review for a proportion of debt deemed to be irrecoverable. To mitigate this risk, we operate 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 we were offering more debt support to more people than ever before through our range of assistance packages. Our new innovative agreements with credit reference agencies are helping us to better target those in most need.

Our Resolve scheme is just one of the many support arrangements we offer customers. This scheme provides customers with an opportunity to clear their debt by maintaining a payment arrangement which will result in us 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 we will introduce a new affordability scheme where we 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.

We recognise that this presents both opportunities and threats to our business and we are watching developments closely as we continue to develop our position.

Increasing retail competition will make the Competition Act increasingly relevant to our business and the wider water industry. We will need to introduce separation between our business retail activities and the rest of our business. We 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. We continue to engage in the evolving national approach to abstraction licence reform and the trading and movement of water nationally.

Delivering the company's capital investment programme

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

In 2013/14 we have continued to govern closely the effective delivery of our capital programme. A Board Capital Investment Committee (BCIC) with delegated power from the board, see page 51, monitors the capital programme delivery and provides strategic direction.

If we were unable to deliver our capital investment programme at expected expenditure levels, were unable to secure the expected level of efficiency savings, or the programme fell behind schedule, profitability might suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future Price Reviews by seeking to recover amounts equivalent to the 'allowed costs' of any parts of the programme that are not delivered. Our ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10% of turnover or other sanctions.

Governing our borrowing requirements

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

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

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

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

Our operations expose us to a variety of financial risks that include the effects of changes in debt market prices, price risk, liquidity risk, interest rate risk and exchange rate risk. Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the company's activities. We actively maintain a broad portfolio of debt, diversified by source and maturity and designed to ensure we have sufficient available funds for operations.

We are exposed to commodity price risk, especially energy price risk, as a result of our operations. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk.

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

Managing changes in the rate of inflation

Our 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 our operating costs and capital expenditure, and on customers' ability to pay any increased charges.

To mitigate this risk we maintain 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 our 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 Periodic 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 our target level of gearing is adjusted to reflect any movements in COPI compared to RPI to eliminate any impact on RCV (as defined on page 39) in the subsequent price control period.

Further information about our finances and our financial governance is provided throughout the remainder of our Annual Report and Financial Statements.

Assurance Statement

Atkins has been retained by Yorkshire Water as an external assurance provider for regulatory submissions including the non-financial business objectives in the Strategic Report 2014.

We have considered the methodologies and processes by which data and statements are produced for the Strategic Report 2014, the material accuracy of these statements and data, and the conclusions drawn by Yorkshire Water (and other parts of Kelda Group where relevant). Our findings are presented in a supporting report.

Based upon our assessment of Yorkshire Water's Strategic Business Objectives and the supporting information we saw over a programme of review meetings in June 2014, we conclude that for the areas we covered:

- the statements of non-financial numeric measures are consistent with our assurance of the CCC14 Risk and Compliance Statement;
- the statements of completed milestones are consistent with our assurance of the PR14 Business Plan submission and our review of other activities in June 2014;
- the statements of progress against on-going business objectives reasonably represent the progress made; and
- the Company's explanations of where and why it was not able to meet its planned objectives are reasonably based.

Overall, the information provided in this Strategic Report provides a fair, balanced and understandable summary of the company's performance and future direction.

We found scope to review and develop the Strategic Business Objectives to clarify definitions and provide a clearer and more consistent basis to these objectives. We observed that the Company is actively working to develop its future approach to the definition, measurement and reporting of its Strategic Business Objectives.

Atkins
24 June 2014

Appendix – Glossary of terms for indicators of our financial performance

Operating profit

Operating profit is disclosed in our profit and loss account on page 68.

Net debt

Net debt represents the value of loans and finance leases owed to third parties and other companies within the Group, offset by available cash.

Adjusted net debt to Regulatory Capital Value (RCV)

The RCV is determined by Ofwat and is the value of the capital base on which a return is allowed for price setting purposes. The values are calculated and published annually by Ofwat. This ratio expresses adjusted net debt as a proportion of the RCV, both of which are published in Yorkshire Water's audited financial statements.

Definitions for Ofwat's financial and non-financial Key Performance Indicators for the water industry are available on their website, at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

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

Richard Flint
Chief Executive

14 July 2014

Corporate governance report

For the year ended 31 March 2014

Throughout the year the board remained accountable to the company's shareholders for maintaining standards of corporate governance. This corporate governance report describes how the board and its committees discharge their duties. Under the terms of its Instrument of Appointment the company is required to have particular regard to the UK Corporate Governance Code as published by the Financial Reporting Council (the Code). The Code applies to all companies with a premium listing of equity shares on the London Stock Exchange. The Code expressly states that it is not a rigid set of rules and that it consists of principles and provisions. The companies whose shares are listed are required to apply the main principles set out in the Code and to report to shareholders on how they have done so. However, the Code acknowledges that departures from provisions of the Code may be justified in particular circumstances and that the reasons for any such departure should be explained to shareholders.

Following a consultation exercise, in January 2014 Ofwat published a document entitled 'Board leadership, transparency and governance – principles' (the Ofwat Principles) which set out the principles that Ofwat expects companies operating in the water sector in England and Wales to apply.

In meeting its statutory and regulatory duties the board is committed to the highest standards of corporate governance in accordance with the requirements of company law, current best practice, the Code and the Ofwat Principles.

In accordance with the Ofwat principles the board has adopted its own 'Board Leadership, Transparency and Governance Code' (the Yorkshire Water Code) which it has published on its website. The Yorkshire Water Code sets out how the company currently applies the Ofwat Principles and the time frame in which they will be fully adopted. In accordance with the Yorkshire Water Code the following section is an explanation of how the company applies the Code and the Ofwat Principles and where appropriate an explanation of any departures from their provisions is provided. The company has complied with the provisions of the Code and the Ofwat Principles except as disclosed below. The Ofwat Principles will be fully implemented by 1 April 2015.

The board of directors

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

The board held ten scheduled meetings during the year. Additional meetings were held where it was considered appropriate or where business needs required. The board met for an additional six meetings to consider the company's business plan submission to Ofwat for the five yearly water industry Price Review process. In addition, meetings of committees of the board were held when required.

Board and committee attendance

There are currently five standing committees of the board which are as follows;

1. The Executive Team (Kelda Management Team (KMT))
2. Yorkshire Water Audit Committee
3. Board Capital Investment Committee (BCIC)
4. Legal Committee
5. Regulation Committee

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

In accordance with its stated intention in the company's Annual Report and Financial Statements for the year ended 31 March 2013 (the 2013 Annual Report) the company established its own separate Audit Committee on 23 October 2013 and met for the first time on 27 November 2013.

The company does not currently have its own separate remuneration committee which has operated at a Group level during the reporting year.

	Board	Exec Team	BCIC	Legal	Group Audit	Yorkshire Water Audit	Group Rem	CSR	Regulation
Kevin Whiteman	16/16	–	–	–	–	–	3/3	1/3	–
Richard Flint	16/16	36/41	–	2/2	–	–	–	3/3	17/18
Liz Barber	16/16	37/41	26/40	–	–	–	–	–	16/18
Charlie Haysom	16/16	33/41	13/40	1/1	–	–	–	–	16/18
Michelle Lewis	15/15	31/37	–	–	–	–	–	–	14/17
Nevil Muncaster	14/14	35/37	30/34	–	–	–	–		15/16
Helen Phillips	16/16	35/41	4/40	0/1	–	–	–	–	14/18
Pamela Rogerson	16/16	36/41	–	–	–	–	–	–	17/18
Martin Havenhand	16/16	–	–	–	–	2/2	2/3	3/3	–
Roger Hyde	15/16	–	–	–	1/1	2/2	–	–	–
Kathryn Pinnock	16/16	–	–	–	–	2/2	–	3/3	–
Anthony Rabin	6/9	–	–	–	1/1	2/2	–	–	–

The company does not currently have its own nominations committee. The board has reserved to it the power to appoint and remove directors from the board of the company (and any of its subsidiaries). In view of this and the private status of the company the board does not consider it necessary or appropriate to submit the directors for re-election at regular intervals.

A description of the workings of the Audit and Remuneration Committees as they apply to the company are set out below.

Prior to 1 April 2015 separate company nominations and remuneration committees will be established, so that, along with the existing Audit Committee, each of those committees and their accountabilities in relation to the company will operate at the Yorkshire Water level. Independent non-executive directors will be the majority group on each of those committees which will operate in a comparable way to those of listed company boards and committees.

The table above shows the number of meetings of the board, its standing committees, Group Audit, Group Remuneration and CSR Committees attended by each director as a member of that board or committee, out of possible attendances. The board's expectation, practice and experience is that all directors attend and fully participate in each board meeting. Anthony Rabin was unable to attend all board meetings as a result of commitments that were pre-existing to his appointment to the board.

In addition, meetings of the non-executive directors are held when required.

The board is accountable and responsible for the control of the company's business, its strategy and its decisions. The primary focus for the board is to lead the development and delivery of the strategy to deliver the service and performance to meet the differing needs of customers, the environment, the business and shareholders.

The board determines the company's strategic objectives and key policies, and approves the business plans for the company, interim and final financial statements, recommendations of dividends, significant investment and major new business proposals, as well as significant organisational matters and corporate governance arrangements. There are clear levels of delegated authority which enable management to take decisions in the normal course of business.

The board has a schedule of matters reserved for its decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the company. The following matters are for the board to determine and which require the approval of the board of Kelda Holdings Limited;

- business strategy;
- business plans;
- matters having a material impact on the future financial performance of the business including any significant change in accounting practice or procedures;
- subject to any delegations given by Kelda Holdings Limited and in force;
    a) major investment including the acquisition or disposal of interests in the voting shares of any company or the making of any takeover bid;
    b) contracts not in the ordinary course of business;
    c) settlement of material litigation; and
    d) guarantees or requests for parent company guarantees.

Following review by and recommendations from the board, the board of Kelda Holdings Limited has reserved to itself the content and subject matter of material submissions to Ofwat, or amendments to the Instrument of Appointment of the company, which will or might reasonably be expected to result in a need for Kelda Holdings Limited and/or a member of the Group to raise additional equity finance.

A review of the reserved matters will be carried out when the company reconfigures its board structure as described below.

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

- discussions with Ofwat on the regulation of the water sector as a result of which the board developed and adopted the Yorkshire Water Code;
- the PR14 periodic price review process which resulted in the submission of the Blueprint for Yorkshire;
- the board evaluation process referred to below;
- the company's customer service performance and services targets;
- consideration of whether to submit a request for an interim determination of prices to Ofwat as a result of which the board determined not to make such a request;
- approval of the annual regulatory reporting to Ofwat;
- water industry market reform;
- approval of a share capital restructuring of the company;
- health and safety strategy and performance;
- colleague development strategy;
- serviceability compliance;
- establishment of a separate board Audit Committee as indicated in the 2013 Annual Report;
- the proposals by Ofwat to modify the company's Instrument of Appointment in respect of Condition N and approval to such modification;
- changes to the legislative, political and regulatory landscape;
- the impact of charges on customers for 2014/15 and the decision to forgo the allowed real price increase above inflation for that year;
- review and approval of the company's tax strategy;
- the company's financing arrangements;
- preparation for the next 5 year period 2015 – 2020 (AMP6); and
- review, development and approval of the company's PR14 business plan submission to Ofwat.

The roles of the chairman and the chief executive are formally set out and agreed by the board of the ultimate parent company. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

All new directors, where applicable, receive an induction and training on joining the board, including information about the company and their responsibilities, meetings with key managers, and visits to the company's operations. Briefings are provided to directors on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and subsequent to, their appointment to meet their particular requirements.

There is an agreed procedure for directors to take independent professional advice at the company's expense in furtherance of their duties in relation to board or committee matters. Directors have access to the company secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The company has directors' and officers' liability insurance in place.

In conjunction with the chairman, the chief executive reviews and agrees with the executive directors their training and development needs. The chairman keeps under review and agrees the training and development needs of the non-executive directors which is organised by the company secretary.

At the end of the year, the Yorkshire Water board comprised a non-executive chairman, five executive directors and four further non-executive directors. Michelle Lewis resigned with effect from 7 March 2014. In accordance with its stated intention in the 2013 Annual Report the board appointed Anthony Rabin to the board with effect from 1 August 2013 as an additional non-executive director with recent and relevant financial expertise.

The board applies a formal, rigorous and transparent procedure for the appointment of all new directors to the board in accordance with the relevant principle of the Code with a view to ensuring that the board has the appropriate balance of skills, experience, independence and knowledge of the company. The company shall periodically review the composition of the board, as well as evaluation of individual directors, to ensure that it remains effective.

In accordance with the above procedure, subsequent to the end of the reporting period, Odgers Berndtson recruitment agency were engaged by the company to carry out a search for a new independent non-executive director to replace Roger Hyde, who retired from the board on 27 June 2014 having served for nine years on the board. This search which included input from non-executive directors on both the board and the board of Kelda Holdings Limited successfully resulted in the appointment of Raymond O'Toole to the board with effect from 27 June 2014. In the absence of a company specific nominations committee this process was reported to and agreed with the Group Nominations Committee. The company has no other current on-going relationship with Odgers Berndtson.

As part of its Group Diversity and Inclusion policy the company supports a diverse and inclusive workforce. As a result it seeks to improve equality of opportunity at all levels within the company. The company has chosen not to set any targets for board representation but is proud of the level of female representation on the board.

In accordance with Condition P of its Instrument of Appointment the board contains at least three independent non-executive directors who are 'persons of standing with relevant experience' and who 'collectively have connections with a knowledge within which' the company holds its appointment, and 'an understanding of the interests of the customers of the company and how these can be respected and protected'.

The company does not currently comply with the Code's requirement that at least half the board, excluding the chairman, comprise non-executive directors determined by the board to be independent. The company will reconfigure its board structure prior to 1 April 2015 such that;

a) the independent non-executive directors (including an independent chairman) will be the largest single group on the board, compared to (i) executive directors and (ii) non-executive directors that are not independent;

b) the number of any investor representatives will be no greater than the number of independent directors excluding an independent chairman; and

c) an independent chairman will be appointed by 1 April 2015.

Martin Havenhand, Roger Hyde, Raymond O'Toole, Kathryn Pinnock and Anthony Rabin are considered by the board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgements.

During the year ended 31 March 2014 Roger Hyde was the senior independent non-executive director. In practice the independent non-executive directors meet collectively with the shareholders but Roger has been the point of contact and representative of the independent non-executive directors in discussions with Ofwat.

The roles of chairman and chief executive are separate and held by Kevin Whiteman and Richard Flint respectively.

As he is not considered to be independent under the Code, appraisal of the chairman's performance is currently carried out by the company's shareholders. Following implementation of the changes referred to above, it is the board's intention that appraisal of the chairman's performance will be carried out by the non-executive directors.

Kelda Management Team

The board has constituted an executive management team called the Kelda Management Team (KMT). During the course of the reporting year the executive directors of the company and the company secretary constituted the KMT. Its duties are to monitor and supervise the management of the company, reporting to the board. The KMT is empowered under the company's articles of association between board meetings and generally to give effect to the strategy determined by the board and to supervise the executive and operational management of the company. The proceedings of the KMT are reported to the board.

Board Capital Investment Committee

The board has constituted a Board Capital Investment Committee (BCIC). The prime duty of BCIC is to provide a strategic cross business view of capital investment on behalf of the company in order to deliver service and compliance requirements at maximum capital and operating efficiency.

The director of finance and regulation, the director of customer service and networks, the director of asset management and the director of production are all members of BCIC together with other senior managers with responsibilities for capital investment on behalf of the company.

The director of finance and regulation is the chair of BCIC and the quorum is three members, one of whom is an executive director of the company.

The proceedings of BCIC are reported to the board.

Legal Committee

The board has constituted a Legal Committee. The duties of the Legal Committee are to deal with all matters requiring a decision on (i) whether to appeal any judicial decision, and (ii) whether to enter a plea of guilty or not guilty in respect of any prosecution brought by the EA or DWI.

The members of the Legal Committee are drawn from the chief executive, head of legal services together with the executive directors whose role is appropriate to the matter under consideration unless there is a conflict with their position. The committee meets on an ad hoc basis by notice. The quorum of the committee is two members, one of whom is an executive director of the company or their alternative director.

The proceedings of the Legal Committee are reported to the board.

Regulation Committee

The board has constituted a Regulation Committee. The duties of the Regulation Committee are to oversee the overall management and direction of arrangements for the periodic price review process.

The members of the Regulation Committee are the executive directors of the company together with senior managers with a responsibility for the periodic review process. The Chair of the committee is the chief executive.

The proceedings of the Regulation Committee are reported to the board.

Audit Committees

As stated above the company established its own separate Audit Committee on 23 October which met for the first time on 27 November 2013. This new committee is chaired by Anthony Rabin, a non-executive director with recent and relevant financial expertise. Anthony also chairs the Group Audit Committee. The other committee members are the independent non-executive directors Martin Havenhand, Roger Hyde and Kathryn Pinnock. The committee met twice during the reporting year. The committee chairman reports on the activities of the committee to the board meeting immediately following each committee meeting.

Prior to establishment of the separate company Audit Committee Roger Hyde was a member the Group's Audit Committee with four Group directors plus the independent chair comprising the balance of that committee. The Group Audit Committee met once during the reporting year with Roger Hyde as a member who reported to the company's board meeting immediately after that meeting.

The description of the workings of the Audit Committees set out below are a description of their workings insofar as they apply specifically to the affairs of the company.

Liz Barber, director of finance and regulation, the external auditors, the Group head of strategy, risk & assurance, the Group internal audit manager and the company secretary attend all meetings. The committees also meet with the external auditors without the presence of executive management when considered necessary or appropriate to do so and in any event annually.

The committees' key tasks during the year included:

- receiving reports from the company's auditors on the company's financial statements;
- reviewing and monitoring of the integrity of the annual regulatory return to Ofwat;
- reviewing the PR14 assurance process;
- reviewing the company's system of internal control, including financial, operational, compliance and risk management;
- overseeing the company's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence and objectivity of the external auditors;
- reviewing internal audit reports on the company's operations;
- a review of the criteria for reviewing the effectiveness of the external auditor; and
- monitoring and reviewing the effectiveness of the internal audit function as applied to the company.

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

The Audit Committee has advised the board on whether this annual report and financial statement taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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

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

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 company has adopted an auditor independence policy which was reviewed during the reporting year by the Yorkshire Water Audit Committee and amended. The amended policy establishes procedures and guidance under which the company's relationship with its external auditor is governed so that the committee is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process.

The key features of the policy are:

- clear accountability of the external auditor to the Audit Committee and the chairman of the board;
- the committee considers annually its recommendation to re-appoint the external auditor;
- the external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- the external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity;
- the external auditor is required to confirm in writing to the committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements;
- the external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the company and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; and
- specific restrictions and procedures in relation to the allocation of non-audit work to the external auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of the work, or the approval of the committee. At each of its meetings the committee receives a report of the fees paid to the auditor in all capacities and the amounts of any future services which have been contracted, or where a written proposal has been submitted. In addition, the external auditor is required to report any contingent fee arrangements for non-audit services.

The split between audit and non-audit fees and a description of the non-audit fees for the year to 31 March 2014 appears in note 2 to the statutory financial statements. The amount and nature of non-audit fees are considered by the committee not to affect the independence or objectivity of the external auditor.

The company considers the award of non-audit work on a case by case basis. During the year to 31 March 2014 the external auditor carried out certain items of non-audit work on behalf of the company and the fees in question are not considered to be material. In the event that the company proposes to award any non-audit work which the external auditor is qualified to carry out and which would be material in terms of the level of fees then a competitive tender process for that work would usually be conducted.

The external auditor was appointed in 2007. The Committee will continue to review the auditor appointment and the need to tender the audit, ensuring the company's compliance with the Code and any reforms of the audit market by UK and European authorities.

During the year the Audit Committee considered the following significant financial issue/judgements in relation to the company's financial statements and disclosures, with input from management and the external auditor:

Going concern
In considering whether the company continues to be a going concern the company's business activities, factors likely to affect its future development, financial position and risk management were reviewed.

It was noted that the company has a combination of cash and committed undrawn bank facilities totalling £647m, which is deemed sufficient to fund the operating and capital investment activities of the company for 12 months from the date of signing the accounts, and an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period.

Key covenants of the Yorkshire Water securitised group have been assessed and there is over £100m of headroom to the gearing covenants with no significant monthly variation in level of net debt.

On the basis of these considerations it was concluded that the company has adequate resources to continue in operational existence for the foreseeable future.

Onerous contracts provision in relation to index linked swaps
Yorkshire Water holds a number of index linked swaps which, as they are 'out of the money' may need to be classified as an onerous contract in line with FRS17.

In considering whether a provision should be recognised in relation to the index linked swaps the proportion of the swaps that are not acting as a hedge against floating rate debt is identified and this proportion applied to the year end mark to market position of the swaps, which is then compared to the level of provision held in the balance sheet.

The review of year end information led to the conclusion that no onerous contract provision needed to be recognised.

Fixed asset impairment
In carrying out impairment review of fixed assets a number of significant assumptions have to be made when preparing cash flow projections. These include the future growth rates, levels of outperformance assumed and discount rates.

Management's report on key assumptions with respect to fixed asset impairment was reviewed and the conclusion was reached that the assumptions were appropriate.

Residential & non-specialist buildings and rural property valuation
At 31 March 2014, residential and non-specialist buildings and rural property were revalued in line with the company's accounting policy. Management reported to the committee that, due to the specialist nature of the valuation, specialist valuers had been contracted. On the basis of the report provided by said valuers an overall increase to the carrying value of land and buildings of £16.3m was booked.

Provision for doubtful debts
The provisioning of doubtful debts is based on subjective judgement of the recoverability of debtor balances. The committee considered that the policy for providing against doubtful debts has not been changed from the previous year and that the balance at 31 March 2014 of £26.2m was consistent with the balance at 31 March 2013 of £25.5m. Management's report of the assumptions involved in calculating the provision for doubtful debts was reviewed and the committee concluded that the policy continued to be appropriate.

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 company 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 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 KMT monthly;
- KMT meet quarterly to review the company'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 Audit Committee reports to the board. Prior to the establishment of the separate Yorkshire Water Audit Committee Roger Hyde reported the committee's activities to the company's board meetings;
- 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 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 this report.

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

The board confirms that it has reviewed the system of internal control. It has received the reports of the committee and has conducted a formal review covering all controls including financial, operational, compliance and risk management.

Group Remuneration Committee

Details of the membership and role of the Group's Remuneration Committee are included in the directors' remuneration report on pages 48 to 61.

Corporate Responsibility Committee

Martin Havenhand and Kathryn Pinnock, who are independent non-executive directors, sit on the Group's Corporate Responsibility Committee. Kevin Whiteman, the non-executive chairman, also sits on this committee which is chaired by Richard Flint. The director of corporate communication and the company secretary attend all meetings. Other directors and Group employees attend by invitation. During the reporting year this committee met on three occasions, one in the form of a workshop, and is scheduled to normally meet on a quarterly basis.

The Corporate Responsibility Committee's key tasks include:

- delivery of the Group's corporate social responsibility reports;
- the creation of a culture of environmental and corporate responsibility awareness within the Group;
- liaising with and directing activity of other relevant Group committees;
- advising on opportunities for partnerships to further the Group's corporate responsibility objective;
- benchmarking performance of the Group against leading comparators; and
- monitoring the work of and receiving reports from the Environmental Advisory Panel.

Board evaluation

As noted in the 2013 Annual Report, following an externally facilitated board evaluation carried out by Egon Zehnder International (EZI), the chairman carried out a further formal board effectiveness evaluation during the reporting year through a self-evaluation questionnaire and interviews with the directors. The content of the evaluation included issues that had been reviewed as a result of the EZI evaluation and addressed individual contributions to the board, the role of the board, board and committee structures and composition, board dynamics and relationships, board processes and board strategy. The chairman reported his findings to the board at its meeting on 24 July 2013.

Interaction with shareholders

The chairman ensures that the views of shareholders are communicated to the board as a whole. The non-executive directors have the opportunity to attend meetings with the shareholders to enable them to develop and understanding of their views. In addition to ad hoc meetings the board of the company meets with the board of Kelda Holdings Limited on a scheduled six monthly basis.

The company takes a systematic approach to identifying, prioritising and engaging its key stakeholders who are many and varied. The company's Communications Team co-ordinates stakeholder engagement activity across the business.

On a quarterly basis the Communications Team carries out an analysis of current and forthcoming issues affecting the business, drawing on insight and research gathered by the business and the company's strategic and operational risk registers. The analysis involves looking at several specific areas – the Political, Economic, Social, Technological, Environmental and Internal environments. This analysis is then used to draw up communication, engagement and influencing programmes with key stakeholder groups.

In view of the private status of the company it does not hold an annual general meeting.

Conflicts of interest

Since 1 October 2008 all directors have been under a statutory duty to avoid any situation which they have, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the company. In accordance with standard practice the company's Articles of Association contain provisions which permit those directors who are not conflicted to authorise conflict situations and procedures have been put in place for the disclosure of any potential conflicts by the directors to the board and if appropriate for the authorisation of such conflicts. The procedures permit any authorisation to be subject to any conditions that the directors who are not conflicted consider to be appropriate. All of the directors are required to notify the company secretary if they believe a conflict situation might arise. The directors do not consider that during the financial year that any actual conflicts of interest have arisen between the roles of the directors as directors of the company and any other roles which they may hold.

Environment

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

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

Community

The company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from governor appointments, and Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report on pages 3 to 39. The financial position of the company is described on page 34 to 37 and its borrowing facilities are described on page 37. In addition, pages 36 and 37 include details of the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £319m at 31 March 2014 (2013: £367m). These funds are sufficient to fund the operating and capital investment activities of the company for the 12 months from the date of signing the financial statements. In addition the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. As a consequence the directors' believe that the company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' remuneration report

For the year ended 31 March 2014

Annual Statement by the Chair of the Remuneration Committee

On behalf of the Kelda Group Remuneration Committee (the committee), I am pleased to present the directors' remuneration report for the year ended 31 March 2014. During the year in question, as it has done for previous years, Yorkshire Water has operated its remuneration policy at a Kelda Group level. However, the board proposes to establish a separate Yorkshire Water remuneration committee during the financial year 2014/15 to consider matters as set out in its terms of reference insofar as they apply specifically to the affairs of the company. This new committee will be chaired by a non-executive director of the company.

The terms of reference of the committee are available on request from the company secretary and can be accessed on the corporate governance section of the Kelda Group's website, at: www.keldagroup.com/corporate-responsibility/managing-corporate-responsibility/our-approach-to-corporate-responsibility/corporate-responsibility-(cr)-committee-terms-of-reference/corporate-governance-manual.aspx

During the year the committee met three times and passed one written resolution and amongst other things carried out the following activities;

- reviewed the remuneration packages of KMT;
- assessed the achievement of targets for the 2013/14 annual incentive plan;
- assessed the measurement of performance conditions for the long term incentive plan (LTIP) awards vesting in 2013 and set the targets for awards made in 2013;
- considered reward packages for the Group;
- considered succession plans for KMT and other senior managers in the company;
- considered the fees for non-executive directors of the company;
- considered market trends and quoted company senior executive remuneration; and
- considered the impact of the revised remuneration reporting regulations on the Group.

The salaries for managers on average increased by 2.8% with effect from 1 April 2013 compared to a general increase of salaries in the company of 3%. The basic salary of the Group chief executive increased by 2.7% from £370,000 to £380,000 and the salary of the Group finance and regulation director rose by 2.5% from £264,007 to £270,607.

Annual bonuses are based on the achievements of targets measured across the company's SBOs as described in the body of this report. Bonuses of 80% of the maximum were awarded to both the Group chief executive and the Group finance and regulation director reflecting the strong performance achieved by the company.

The Group chief executive and the Group finance and regulation director were executive directors of Kelda Holdings Limited during 2013/14 and their remuneration is shown in full, however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged out of the regulated business. Details of the salary increases and bonuses for the rest of the board are set out in detail below.

The LTIP awarded in May 2011 is due to vest in this financial year subject to achievement of the Performance Conditions for that award. As at the time of publication of this report the outturn measures for the Ofwat Performance Condition and the Serviceability Performance Condition had not been determined and therefore the 2011 awards had not yet vested. Details of the committee's decision on vesting the 2011 awards shall be published in the Annual Report and Financial Statements for 2014/15.

Holly Koeppel

Introduction

During the year ended 31 March 2014 the committee comprised four shareholder representatives, the chairman of the company and Martin Havenhand representing the Yorkshire Water independent non-executive directors. Richard Flint, chief executive, Pamela Rogerson, director of human resources and health & safety, and the company secretary attend all meetings. Liz Barber, director of finance and regulation attends by invitation. Pamela Rogerson acts as adviser to the committee and external advisers attend on an ad hoc basis to advise the committee as necessary. During the year ended 31 March 2014 the Remuneration Committee was chaired by Holly Koeppel, one of the shareholder representatives.

The table below shows the number of meetings the committee attended by each director out of possible attendances:

Scott Auty (as alternate for Jane Seto)	1/1
Stuart Baldwin	2/3
Paul Barr (as alternate for Stuart Baldwin)	1/1
Milton Fernandes	2/3
Martin Havenhand	2/3
Holly Koeppel	3/3
Jane Seto	2/3
Kevin Whiteman	3/3

For guidance in recommending remuneration packages, the Remuneration Committee uses published surveys carried out by remuneration consultants, as well as internal research, together with other ad hoc projects to support the objective of ensuring competitive and sustainable remuneration. New Bridge Street Consultants advise the company and the remuneration committee on a variety of remuneration related issues. The company does not use New Bridge Street Consultants in any capacity other than as an independent adviser on remuneration matters.

Judith Levy from New Bridge Street attended the committee meeting on 30 January 2014. The purpose of the meeting was to update and provide advice to the committee on the new Reporting Regulations. Judith Levy also provided some updated information of remuneration in the Water Industry. As a result of this meeting, the committee determined the timescales for complying with the Reporting Regulations. No changes were proposed or determined in terms of the executive remuneration policy.

In 2013/14, New Bridge Street attended that one committee meeting and was paid a fee of £6,426.

The committee makes recommendations to the board of Kelda Holdings Limited in respect of the Group on the framework of executive remuneration and its cost. It determines the remuneration and conditions of employment of the chairman, executive directors and the next most senior category of executives, including the terms of any compensation in the event of early termination of an executive director's contract. It also operates the company's long term incentive plan. In determining the remuneration of executive directors and other senior executives, the committee also takes into account the level of remuneration and pay awards made generally to employees of the Group. The design of performance–related remuneration for executive directors and other senior management of the company takes into account the provisions of Schedule A of the UK Corporate Governance Code.

The company's remuneration policy is set out in detail on pages 50 to 61 and takes account of the views of the shareholder representatives who sit on the committee. The company's policy is to establish remuneration packages which enable the company to attract, retain and motivate people with the skills and experience necessary to lead and manage a business of the company's size and complexity. Remuneration packages should be aligned with the interests of the company's stakeholders, in particular its shareholders and customers.

In recommending remuneration packages, the committee follows the principle of recognition of the individual's contribution to the business. The company intends that remuneration packages continue to be developed to enable executive directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, compared to relevant market and industry comparators and taking into account individual performance, responsibilities and experience. Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards. Further details of the proportions are included in the following sections and in the directors' emoluments table on page 59.

The design of the total remuneration package is intended to achieve a weighting of each component to ensure that above average remuneration is available through performance related elements rather than base salary.

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

Statement of Remuneration Policy

Remuneration Policy in 2014/15

Overall remuneration policy for executives remains unchanged for 2014/15. The structure of the annual incentive scheme is unchanged. However, clear targets have been determined for the business plan year 2014/15 and these will be material in determined actual performance and therefore any bonus payable.

The relevant measures and targets for the long term incentive scheme 2014/15 have not yet been determined as they are dependent to an extent on the outcome of the PR14 price review process.

There are no planned changes to the LTIP policy for 2014/15 other than responding to changes in the Service Incentive Mechanism (SIM). The LTIP scheme considers three performance conditions, SIM, Serviceability and Cash Available for Distributions. The Cash Available for Distributions target will be confirmed following the PR14 Final Determination. As at the date of this report, it is understood that Ofwat intends to change the way customer service is measured and that a pilot will take place in 2014/15. The Remuneration Committee are considering amendments to the SIM performance condition on the LTIP. The performance conditions are set out below on pages 55 to 58.

The committee determines all aspects of remuneration for executive and non-executive directors. In addition, the committee retain discretion over the application of performance related pay policy.

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

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

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

Board executive directors

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2013/14
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 100% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long term incentive	To ensure focus on the long term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package and incentives outperformance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 200% of base salary. Award is vesting following the three year period subject to performance conditions. Incentive payments are non-pensionable.	The committee will need to consider the implications of Ofwat not publishing a SIM ranking for the Water and Sewerage Companies for the performance year 2014/15. The financial target for cash available for distributions will be reviewed for the LTIP schemes commencing in 2013 and 2014 once the PR14 Final Determination is understood.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme – Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions A stakeholder scheme is available for all new colleagues including Executives.	Choice of a company contribution into the defined contribution stakeholder scheme of a maximum of 30% or a cash allowance of up to 25% or a combination of both of the above approaches providing this is cost neutral to the company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is based on individual circumstances.	No changes to policy.

Other senior executives

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2013/14
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 70% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long term incentive	To ensure focus on the long term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package and incentives outperformance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 150% of base salary. Award is vesting following the three year period subject to performance conditions. Incentive payments are non-pensionable.	The committee will need to consider the implications of Ofwat not publishing a SIM ranking for the Water and Sewerage Companies for the performance year 2014/15. The financial target for cash available for distributions will be reviewed for the LTIP schemes commencing in 2013 and 2014 once the PR14 Final Determination is understood.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme – Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a company contribution into the defined contribution stakeholder scheme of a maximum of 24% or a cash allowance of up to 20% or a combination of both of the above approaches providing this is cost neutral to the company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is subject to a maximum of lease costs of £6,780 pa or cash allowance of £7,500 pa.	No changes to policy.

Independent non-executive directors (INEDs)

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2013/14
Fee	To provide competitive pay to enable attraction and retention.	Reviewed when required subject to market trends.	Current fee for chairman is £400,000 pa. Current fee for other INEDs is £30,000 pa. Any increases are determined by the Remuneration Committee.	No changes to policy.

Annual salary and benefits

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

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

Annual incentive plan

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

During the 2013/14 financial year, the chief executive and the director of finance and regulation had the opportunity to earn an annual incentive award of up to 100% of their salary representing their Group roles. Each other executive director on the board had the opportunity to earn an annual incentive award of up to 70% of their salary. Any bonus payment is made in June based on performance in the year ending on the preceding 31 March.

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

Early in the 2008/09 financial year, the company implemented a new annual incentive plan based on company performance and personal contribution. Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March as follows:

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal / individual objectives set at the start of the financial year.
- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the company's strategic business objectives. The same corporate objectives were shared by all directors. For the financial year 2013/14 these are set out in the table opposite with the percentage payable.

Annual incentive plan

Strategic Theme	Measure	% of corporate bonus awarded (% of overall bonus)
Trusted company	1. SIM qualitative 2. SIM quantitative 3. Media score (Kelda) 4. Employee trust score	12% (6% of max)
Water efficient regions	1. Reservoir stocks 2. Leakage rolling average 3. Demand	12% (6% of max)
Safe water	1. Mean zonal compliance 2. DWI incidents 3. RIDDOR* incident rate (Kelda) 4. RIDDOR* incident rate (Yorkshire Water) 5. DG5 other causes	12% (6% of max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents 2. Category 3 pollution incidents 3. No of waste water treatment works (WWTW's) failing numeric consent	12% (6% of max)
Sustainable resources	1. Renewable energy generation (GWh) 2. Greenhouse gas emissions (tCO_2e)	12% (6% of max)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (Yorkshire Water) 3. Capital expenditure 4. Capital efficiency	40% (20% of max)

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

Annual incentive scheme targets and actual performance for 2013/14

Strategic Theme	Measure	Business Plan 13/14	Actual 13/14	% of corporate bonus awarded (% of overall bonus)
Trusted company	1. SIM qualitative 2. SIM quantitative 3. Media score (Kelda) 4. Employee trust score	4.55 172.9 10.0 7.0	4.63 160.3 11.02 6.5	10% (12%)
Water efficient regions	1. Reservoir stocks 2. Leakage rolling average 3. Demand	85.1% 297 Ml/d 1,246 Ml/d	94.9% 282 Ml/d 1,250 Ml/d	12% (12%)
Safe water	1. Mean zonal compliance 2. DWI incidents 3. RIDDOR* incident rate (Kelda) 4. RIDDOR* incident rate (Yorkshire Water) 5. DG5 other causes	99.962% 15 3.7 4.9 315	99.978% 12 4.4 3.8 321	10% (12%)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents 2. Category 3 pollution incidents 3. No of waste water treatment works (WWTW's) failing numeric consent	6 306 6	11 244 6	8% (12%)
Sustainable resources	1. Renewable energy generation (GWh) 2. Greenhouse gas emissions (tCO_2e)	62.97 373,096	44.3 356,982	5% (12%)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (Yorkshire Water) 3. Capital expenditure 4. Capital efficiency	£627.8m £602.5m £332.8m £42.1m	£626.2m £598.5m £344.0m £42.1m	30% (40%)

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

Considering the actual company performance as detailed previously (which makes up 50% of the total annual incentive) and following a review of the delivery of individual objectives and contribution the following total awards for 2013/14 were determined by the Remuneration Committee.

Strategic	Max. Bonus %	Bonus for 2013/14 %	Bonus for 2013/14 £
Liz Barber	100	80	216,486
Richard Flint	100	80	304,000
Charlie Haysom	70	58	86,625
Michelle Lewis	70	40	44,196
Nevil Muncaster	70	55	85,444
Helen Phillips	70	53	96,863
Pamela Rogerson	70	55	68,419

These payments were approved by the committee on 27 March 2014 and were paid in June 2014.

Richard Flint and Liz Barber were executive directors of Kelda Holdings Limited during 2013/14 and their bonuses are shown in full, however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged from the regulated business.

The annual incentive scheme policy is unchanged for 2014/15. A range of performance measures and targets have been agreed at the start of the year across all strategic business objectives. The measures and targets for the company element of the annual incentive scheme are detailed in the table below.

Annual incentive scheme targets for 2014/15

Strategic Theme	Measure	Business Plan 14/15	% of corporate bonus awarded (% of overall bonus)
Trusted company	1. SIM qualitative (replica score) * 2. SIM quantitative* 3. Media score 4. Employee trust score	4.7 147.1 11.5 7.0	12% (6% of max)
Water efficient regions	1. Reservoir stocks 2. Leakage rolling average 3. Demand	90.4% 297 Ml/d 1,245 Ml/d	12% (6% of max)
Safe water	1. Mean zonal compliance 2. DWI incidents 3. RIDDOR incident rate** (Kelda) 4. RIDDOR incident rate** (Yorkshire Water) 5. DG5 other causes	99.93% 15 3.2 3.9 302	12% (6% of max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents 2. Category 3 pollution incidents 3. No of waste water treatment works (WWTW's) failing numeric consent	8 272 5	12% (6% of max)
Sustainable resources	1. Renewable energy generation (GWh) 2. Greenhouse gas emissions (tCO_2e)	75.42 373,096	5% (12%)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (Yorkshire Water) 3. Capital expenditure 4. Capital efficiency	***	40% (20% of max)

*SIM measure is currently under review by Ofwat therefore Customer Service measures and targets are subject to change.

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

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

Long term incentive plan (LTIP)

Under the plan, executive directors may receive, at the discretion of the Remuneration Committee, a conditional monetary award. The plan provides for a cash award based on a percentage of salary. For the chief executive and the director of finance and regulation this is a value of up to 200% of base salary. For each other executive director on the board this is a value of up to 150% of base salary.

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

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

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

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

No benefits under the plan are pensionable.

Following a review of the Group's LTIP arrangements a revised set of performance conditions were developed during 2011/12. The committee determined that customer service should provide a 'gateway' to any award as measured by Ofwat's customer Service Incentive Mechanism (SIM). Once through that 'gateway' delivery of cashflow targets would provide a cash value to vest. Finally, long term management of the company's assets by assessment against Ofwat's serviceability measures will secure the payment for vesting. A bonus for top customer service performance will be added. If ranked 1st or 2nd in SIM league table for water and sewerage companies (WASCs), the sum to vest will be 110% of the value arrived at when assessing the payment for vesting.

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

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

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

Step 1 – Ofwat Performance Condition

The Ofwat Performance Condition is met only if the Ofwat Ranking of the company is in the top half of the Ofwat Comparator Group (i.e. performance relative to the other nine WASCs based on Ofwat published data) for the Ofwat SIM Measure. In the event of such ranking not being published by Ofwat then the company shall be ranked by such other comparative assessment as adopted by the committee. If the company is in the top half of the Ofwat Comparator Group as assessed above the award shall vest as described in the steps 2 – 4 below. These steps were adopted by the committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award, 2015/16 for the 2013 award and 2016/17 for the 2014 award).

If the Ofwat Ranking of the company is in the bottom half of the Ofwat Comparator Group for the SIM measure (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the committee) then the Ofwat Performance Condition shall not be met and the award shall not vest.

Step 2 – Cashflow Performance Condition

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

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

The targets for this Condition for the 2011, 2012 and 2013 awards are not disclosed on the basis of commercial sensitivity.

Step 3 – Serviceability Performance Condition
The Serviceability Performance Condition is that, subject to the SIM Bonus set out in step 4 below, 25% of the percentage determined under Step 2 shall vest in respect of the awards for each Ofwat serviceability measure as assessed in the Ofwat Report (or where replaced by such regulatory self reporting procedures as assessed by those regulatory self reporting procedures for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award, 2015/16 for the 2013 award and 2016/17 for the 2014 award) as 'stable' or 'improving'.

Step 4 – SIM Bonus
In the event that the Ofwat ranking of the company is 1st or 2nd amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award, 2015/16 for the 2013 award and 2016/17 for the 2014 award), then a further 10% will be added to the amount to vest in respect of the award, i.e. the amount to vest would be 110% of the value derived after step 3.

In the event that the Ofwat ranking of the company is 3rd or lower amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the committee for performance in the financial year 2013/14 for the 2011 award, 2014/15 for the 2012 award, 2015/16 for the 2013 award and 2016/17 for the 2014 award) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

Details of the vesting of the 2008 awards were given in the regulatory accounts for 2010/11.

Details of the vesting of the 2009 awards were given in the regulatory accounts for 2011/12.

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

As at the time of publication of this report the outturn measures for the Ofwat Performance Condition and the Serviceability Performance Condition had not been determined and therefore the 2011 awards had not yet vested. A summary of the 2011 award is provided in the table below. Details of the committee's decision on vesting the 2011 awards shall be published in the Annual Report and Financial Statements for 2014/15.

	Performance conditions	Date of award	End of performance period	Measure achieved	Base value of award	Value of award vested
Richard Flint	See above	25 May 2011	31 March 2014	Not yet known	£700,000	Not yet known
Liz Barber	See above	25 May 2011	31 March 2014	Not yet known	£473,800	Not yet known
Charlie Haysom	See above	25 May 2011	31 March 2014	Not yet known	£156,509	Not yet known
Pamela Rogerson	See above	25 May 2011	31 March 2014	Not yet known	£154,500	Not yet known

Total remuneration

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

Chief executive and director of finance and regulation

Component of remuneration	2013/14 Value (% of salary)		2014/15 Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary		100		100
Annual incentive	85	100	85	100
Long term incentive	140	200	140	200
Pension*		14.6		14.6
Total remuneration as % of salary	339.6	414.6	339.6	414.6
Variable pay (bonus and LTIP as a % of total)	66	72	66	72
Long term pay (LTIP and pension as a % of total)	46	52	46	52

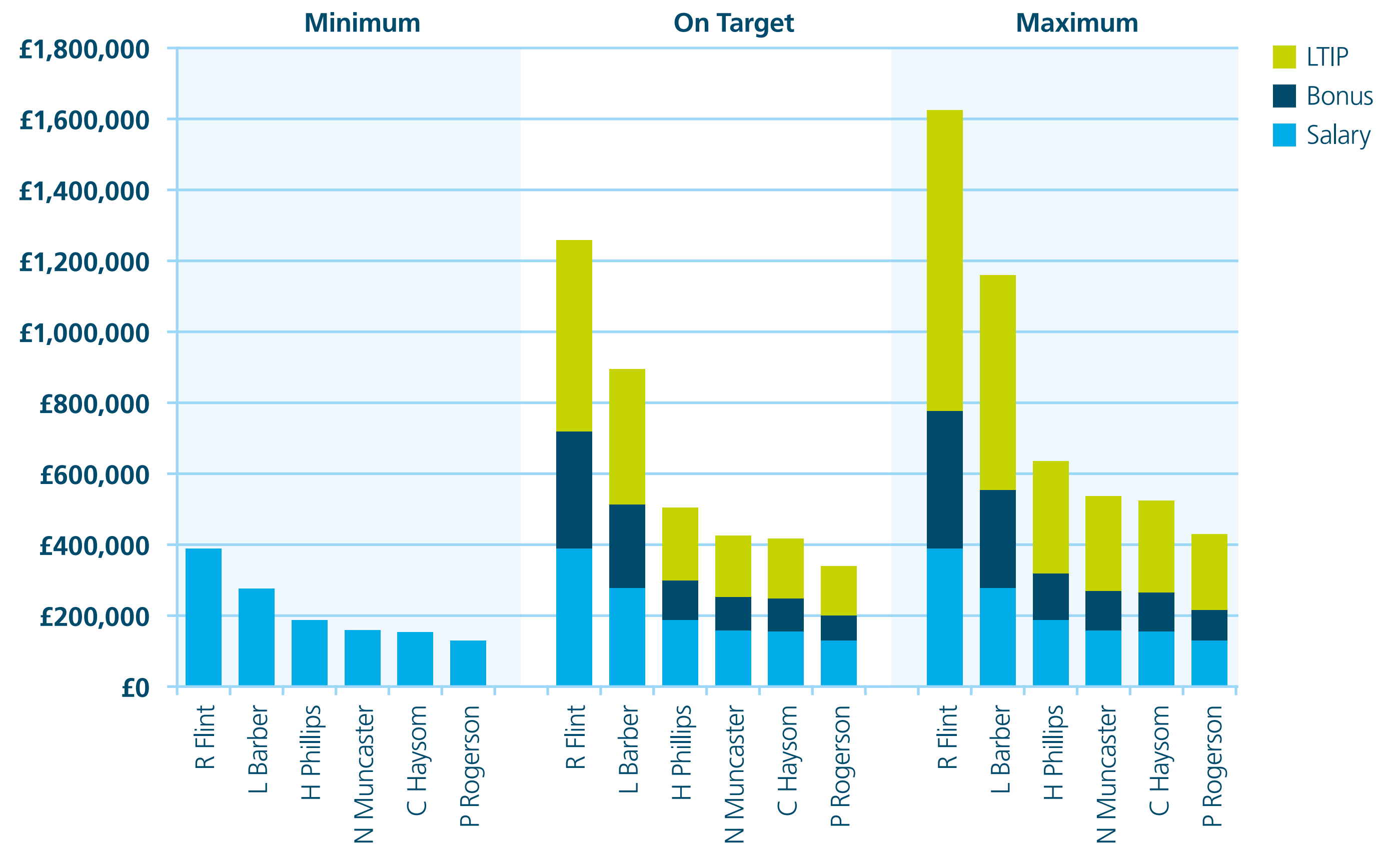
* Pension scheme categories – KGPP employer category 14.6% / stakeholder employer category 30% or cash alternative 25%

Other executive directors

Component of remuneration	2013/14 Value (% of salary)		2014/15 Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary		100		100
Annual incentive	60	70	60	70
Long term incentive	105	150	105	150
Pension*		14.6		14.6
Total remuneration as % of salary	279.6	334.6	279.6	334.6
Variable pay (bonus and LTIP as a % of total)	59	66	59	66
Long term pay (LTIP and pension as a % of total)	43	49	43	49

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

For the executive directors only the bar charts below provide an indication of the level of remuneration that would be received by the director in accordance with the directors' remuneration policy in the year 2014/15 on the basis of performance levels that achieve fixed pay only, on–target reward and maximum reward. The percentages for on target and maximum reward are set out in the tables above.



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

Senior managers (27 colleagues) participate in the LTIP. All managers participate in an annual incentive scheme with potential bonuses of up to 10, 15 or 30 % of salary depending on seniority. All other colleagues participate in a quarterly bonus scheme, with payments which vary depending on company performance in that quarter.

Pension Scheme eligibility is consistent for all colleagues. The defined benefit scheme (KGPP) is now closed to new members. All new colleagues have the option (subject to auto-enrolment provisions) to join the company's stakeholder scheme which is a defined contribution scheme.

Non-executive directors

The chairman of the board is paid an annual fee of £400,000 in respect of his role as chairman of Kelda Holdings Limited and other Group responsibilities. The other non-executive directors of the company are paid a fee of £30,000 per annum.

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

Service contracts

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

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

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

Richard Flint	11 November 2009
Liz Barber	30 April 2010
Charlie Haysom	1 April 2011
Michelle Lewis	27 April 2012
Nevil Muncaster	13 March 2013
Helen Phillips	23 November 2011
Pamela Rogerson	1 April 2011

Kevin Whiteman's current appointment as chairman of the board took effect on 1 July 2013 and is for term of two years subject to extension. The terms of appointment do not contain any provisions for notice periods or for compensation in the event of early termination.

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

Martin Havenhand	1 October 2012
Roger Hyde	27 June 2012
Raymond O'Toole	27 June 2014
Kathryn Pinnock	1 March 2014
Anthony Rabin	1 August 2013

Roger Hyde served nine years with the company and he retired from the board on 27 June 2014.

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

Table of directors' emoluments

Set out below is the amount earned by the directors in the year ended 31 March 2014.

	Salary/fees for the year ended 31 March 2014	Taxable benefits for the year ended 31 March 2014	Annual bonus for the year ended 31 March 2014	Total emoluments for the year ended 31 March 2014	Total emoluments for the year ended 31 March 2013	Pension related benefits for the year ended 31 March 2014	Total emoluments and pension related benefits for the year ended 31 March 2014
		(See note 1)			(See note 2)	(See Note 2 and separate table below)	(See Note 3)
	£000	£000	£000	£000	£000	£000	£000
Executive directors							
Richard Flint	380	11	304	695	695	166	861
Liz Barber	271	10	216	497	476	81	578
Charlie Haysom	149	16	87	252	214	–	252
Michelle Lewis (resigned 7 March 2014)	109	8	44	161	165	23	184
Nevil Muncaster (appointed 29 May 2013)	132	38	85	255	–	27	282
Helen Phillips	184	14	97	295	290	44	339
Pamela Rogerson	122	12	68	202	204	15	217
Non-executive directors (note 4)							
Kevin Whiteman	362	1	–	363	267	–	363
Martin Havenhand	28	–	–	28	25	–	28
Roger Hyde	28	–	–	28	25	–	28
Kathryn Pinnock	28	–	–	28	25	–	28
Anthony Rabin	20	–	–	20	–	–	20
Total contribution	**1,864**	**110**	**901**	**2,824**	**2,386**	**356**	**3,180**

Note 1 The benefits included in this column relate to the provision of a car or cash equivalent, car fuel or cash equivalent, healthcare and, in the case of Nevil Muncaster, relocation related expenses.

Note 2 The pensions figure for KGPP members for 2013/14 is calculated as the change in value of the pension, net of inflation, over the year less the employee's contributions and is subject to a minimum of zero. The pensions figure for Kelda Stakeholder+ members for 2013/14 is calculated as the contributions made on their behalf by the company.

Note 3 The table does not include a column for total remuneration for the year ended 31 March 2013 as (a) the emoluments in respect of pensions were reported in the 2013 Annual Report on a fuller basis which included increase in accrued pension and transfer values, and (b) the payments in respect of the LTIP which vested and were paid in the year ended 31 March 2014 were reported in the 2013 Annual Report. As reported above it is not yet known whether the performance conditions for the LTIP which is due to be paid in the financial year 2014/15 will be met. Accordingly any comparison of total remuneration for the year ended 31 March 2013 with total remuneration for the year ended 31 March 2014 would not be a valid comparison. The like for like data for the years ended 31 March 2014 and 31 March 2015 shall be published in the Annual Report and Financial Statements for the year ended 31 March 2015 on a like for like basis.

Note 4 The fees for the non-executive directors were varied during the year therefore the sums in the table reflect a part year effect of the current fee levels referred to above.

Kevin Whiteman, Richard Flint and Liz Barber were also directors of Kelda Holdings Limited during 2013/14. Their emoluments are shown here in full however they carry out other Group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant Group company. Anthony Rabin was also an independent non-executive director of Kelda Holdings Limited during 2013/14 and his emoluments shown here are only in respect of his fees paid as an independent non-executive on the board of Yorkshire Water.

Pensions information in respect of the Kelda Group Pension Plan

Richard Flint

Membership of the Kelda Group Pension Plan and unregistered arrangement, giving (from April 2013) pension of 1/40th of pensionable pay for each year plus additional lump sum based on 3/40th of Pensionable Pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63. Currently total pension is £98,716 p.a. plus additional lump sum of £28,500.

Michelle Lewis

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/67th of pensionable pay for each year plus additional lump sum based on 3/67th of pensionable pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63. Currently total pension is £12,928 p.a. plus additional lump sum of £4,917.

Charlie Haysom

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/77th of pensionable pay for each year plus additional lump sum based on 3/77t of pensionable pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63. Currently total pension is £78,639 p.a. plus additional lump sum of £5,844.

Pamela Rogerson

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/67th of pensionable pay for each year plus additional lump sum based on 3/67th of pensionable pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63. Currently total pension is £40,993 p.a. plus additional lump sum of £5,557.

Value of all pension related benefits accrued in year to:

	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Director undertaking role of chief executive*	£165,700	£197,909	£186,253	£322,837	£112,818

* The value of all pension-related benefits for Richard Flint for the later four years, and the value of all pension related benefits for Kevin Whiteman for the year ending 31 March 2010 are shown above. The figures shown are net of contributions paid by the chief executive which were 6% p.a. of pensionable pay before the benefit changes which came into effect 1 April 2013 and 8.5% p.a. thereafter. These contributions were made by salary sacrifice.

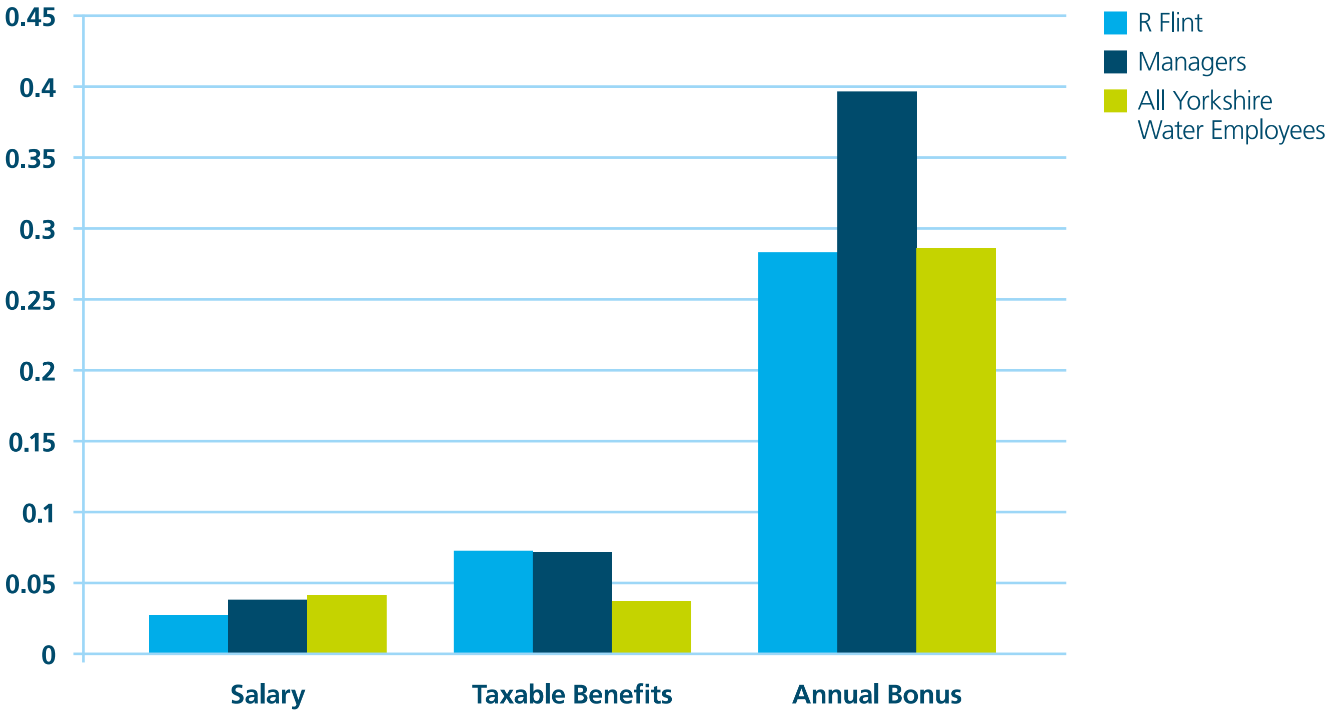
Liz Barber, Nevil Muncaster and Helen Phillips were members of the Kelda Stakeholder+ arrangement (Defined Contribution) scheme.

The table opposite and chart on page 61 show the percentage change in salary, benefits and annual bonus earned between the year ended 31 March 2013 and the year ended 31 March 2014 for the chief executive compared to the average company manager and employee for each year.

% increase in element between 2012/13 and 2013/14

Strategic	Salary %	Taxable benefits %	Annual bonus %
R Flint	2.70	7.25	28.37
Managers	3.81	7.11	39.76
All Yorkshire Water employees	4.06	3.64	28.73

% increase in element between 2012/13 and 2013/14



Details for managers and all Yorkshire Water employees include employees who were employed at both 31 March 2013 and 31 March 2014 and is based on their salary at those two points.

Annual bonus relates to the bonus paid in that year. For managers, this bonus relates to the previous financial year. For all other employees, this bonus relates to the current financial year.

In respect of the year ending 31 March 2014 and the preceding financial year the table opposite shows the actual expenditure of the company, and the difference in spend between those years, on:

a) remuneration paid to or receivable by all employees of the company; and

b) distributions both to shareholders by way of dividend and to repay interest and loans to the company.

	2013/14 £m	2012/13 £m
Total spend on remuneration for all Yorkshire Water employees:	**110.3**	**115.7**
Wages and salaries	**78.6**	79.7
Social security costs	**7.2**	7.5
Other pension costs	**24.5**	28.5
Total distributions made	**165.5**	**256.6**
Distributions made to allow Kelda Holdco Limited to repay interest and loans to Yorkshire Water	**70.3**	78.1
Other distributions	**95.2**	178.5
Remuneration excludes costs which are capitalised.		

Directors' report

For the year ended 31 March 2014

The directors present their report and the audited financial statements of the Yorkshire Water Services Limited for the year ended 31 March 2014.

Financial results for the year

Profit for the financial year was £203.1m (2013: £248.5m).

Business review

A review of the development and performance of the business of the company, including strategy, business model, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the company are set out in the Strategic Report on pages 3 to 39.

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

Directors

The directors who served during the year and up to the date of signing these financial statements, including any changes, are shown below. The working of the board is covered in more detail in the Corporate Governance report on pages 40 to 47.

Richard Flint	
Liz Barber	
Charlie Haysom	
Michelle Lewis	resigned 7 March 2014
Nevil Muncaster	appointed 29 May 2013
Helen Phillips	
Pamela Rogerson	

Non-executive directors

Kevin Whiteman	chairman
Martin Havenhand	
Roger Hyde	senior independent non-executive director resigned 27 June 2014
Raymond O'Toole	appointed 27 June 2014
Kathryn Pinnock	
Anthony Rabin	appointed 1 August 2013

Biographies

Richard Flint

Chief executive of the company with effect from 1 April 2010. Richard was appointed as chief operating officer in September 2008. He was director of the water business unit from 2003. Previously, he held a number of senior operational positions in the company. He was appointed as Group chief executive to the board of the parent company Kelda Holdings Limited in March 2010.

Elizabeth (Liz) Barber

Appointed as director of finance and regulation on 24 November 2010. Liz joined the company from Ernst & Young where she held a number of senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. She had been with Ernst & Young since 1987 and in that time worked with some of the largest companies in the UK. She specialised in delivery of services to the water industry, including a number of water companies and the regulators in England, Wales and Scotland. She was appointed as Group finance and regulation director to the board of Kelda Holdings Limited in November 2010. She was appointed to the Board Council of Leeds University on a non-executive capacity in 2013.

Charlie Haysom

Appointed as director of the asset delivery unit on 27 April 2011 and subsequently as director of the production business unit in March 2013 upon the retirement of Graham Dixon from the company. Charlie's career with the company spans 33 years, during which time he has held a number of senior operational roles in water distribution, asset management, water production, regional operations control and capital programme delivery.

Nevil Muncaster

Appointed as director of the asset delivery business unit (now the asset management unit) on 29 May 2013 having joined the company in 13 May 2013. Nevil is a civil engineer by training and joined the company from Veolia Water where he worked for 19 years, where he held the roles of Managing Director of Veolia Water Southeast Limited (formerly Folkestone and Dover Water) and Veolia Water East Limited (formerly Tendring Hundred Water).

Helen Phillips

Appointed as director of the customer service and networks business unit on 28 March 2012. Helen joined the company in March 2012 and was previously chief executive officer of the Government's advisory body on the natural environment, Natural England, having served in that role for five years. Helen held previous operational, regulatory and advisory roles at the EA and the National Rivers Authority.

Pamela Rogerson

Appointed as director of Human Resources and Health and Safety on 27 April 2011. Pamela joined the company in 2002 and was appointed head of HR in June 2010 having previously developed her career in the electricity supply and retail industries.

Kevin Whiteman

Joined Yorkshire Water in 1997 as business director for waste water, and became managing director in April 2000. Kevin is chairman of Kelda Holdings Limited (formerly chief executive) and Kelda Eurobond Co Limited, and formerly chief executive and accounting officer of the National Rivers Authority and regional director of the EA. He previously held senior positions with British Coal. He was appointed to the board of NG Bailey Ltd as a non-executive director on 1 April 2013 and assumed the role of non-executive chairman of that company on 25 July 2013.

Martin Havenhand

Appointed to the board as an independent non-executive director in October 2007. Martin was appointed Chairman of the Rotherham NHS Foundation Trust in February 2014. From 1999 to 2006, he was Chief Executive of Yorkshire Forward having previously been Chief Executive of Bassetlaw District Council, North Nottinghamshire. He was Chairman of Sheffield City Region and prepared the groundwork for the Local Economic Partnership; and was Chairman of NAMTEC (National Metals Technology Centre) and Chairman of the National Skills Academy (for Sport and Active Leisure) and has held non-executive roles with Gladedale Holdings, a national house building company; and The Adsetts Partnership, a social enterprise which provides support to local charitable organisations.

Roger Hyde

Appointed to the board as an independent non-executive director in June 2005, Roger held various local government roles before becoming chief accountant of Anglian Water Authority in 1986. Following appointment to the National Rivers Authority in 1988, successive promotions led to his appointment as director of the North East Region of the EA in 1995. He is currently managing director of ENVRO-SOLVE Ltd, a management consultancy service and is also a non-executive director of YCF Ltd and Water Industry Forum Ltd.

Raymond (Ray) O'Toole

Appointed to the board as an independent non-executive director in June 2014 following a successful career in the Transport sector. Ray stood down from the main board of National Express plc in 2010 after ten years as Group Chief Operating Officer and UK Chief Executive. At National Express's peak, he was responsible for a fleet of 20,000 buses and coaches, 9 rail franchises and 40,000 staff, with operations in Spain, the USA, Canada and the UK. He started his non-executive career whilst at National Express as a member of the board of the British Transport Police Authority (BTPA). Since 2011, he has served as a non-executive director and member of the Safety Committee of the Office of Rail Regulation (ORR).

Kathryn Pinnock

Appointed to the board as an independent non-executive director in March 2008. Kath has been a councillor with Kirklees Council since 1987 and held the post of Leader of the Council from 2000 to 2006. She is a member of the national Local Government Policy Forum and was both a board member of Yorkshire Forward from 2002 to 2012 and a member of the executive of Yorkshire & Humber Regional Assembly from 2000 to 2006. Kath is a regional peer for the Local Government Improvement and Development Agency which involves working with councils and councillors to improve the quality of local government. She also has a non-executive role with CO_2 Sense which is a community interest company charged with helping businesses reduce their carbon footprint.

Anthony Rabin

Appointed to the Board as a non-executive director with effect from 1 August 2013. He was appointed as an independent non-executive director to the Kelda Holdings board in July 2012. Anthony has previously held roles at Balfour Beatty plc, including as executive director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has a held a number of previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy). He is currently also a non-executive director of Colt Group S.A., a listed telecommunications, IT managed services and data centre company.

As permitted by the articles of association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company has directors' and officers' liability insurance in place.

Dividends

The total dividends of £165.5m (2013: £256.6m) were paid to Yorkshire Water's immediate parent company, Yorkshire Water Services Holdings Limited, in the year, of which £95.2m (2013: £178.5m) was available to shareholders, the balance of £70.3m comprised dividends used to pay interest on intra group loans to Yorkshire Water.

	2014 £m	2013 £m
Gross dividends	**165.5**	**256.6**
Dividends paid to Kelda Holdco Ltd to allow Kelda Holdco Ltd to pay interest to Yorkshire Water	**(70.3)**	(78.1)
Net distributions available to shareholders	**95.2**	**178.5**

No final dividend for the year is proposed.

Yorkshire Water's contribution to Kelda Group's shareholder distributions is summarised in the table below:

	2014 £m	2013 £m
Net Yorkshire Water distributions	**95.2**	178.5
Distributions from other Group companies	**9.7**	6.6
Retained to fund interest and corporate costs within Kelda Group	**(19.7)**	(27.0)
Distributed to shareholders	**85.2**	**158.1**

The company's dividend policy is to:

- deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits;
- to pay dividends in respect of the non-appointed business reflecting the profitability of those activities; and
- where it is foreseeable that the company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy. The company can also pay special dividends as part of any capital reorganisation which the board concludes to be in the best interests of the company and complies with its obligations under its licence.

The directors consider that the dividends paid in the year are in accordance with these principles.

Reserves

On 24 July 2013, the revaluation reserve of £1,658.2m was fully capitalised by way of issuance and allotment of 10,000,000 ordinary shares of £1 each at a premium of £164.82 per share.

On the same day, the share capital of the company was reduced by cancelling paid up share capital to the extent of 50p upon each of the 20,000,000 issued ordinary shares of £1 each and reducing the nominal value of each share to 50p.

Finally, the share premium account was reduced from £1,648.2m to £nil and transferred to the profit and loss reserve.

In addition to the above transactions, the profit for the financial year of £203.1m has been transferred to the profit and loss reserve, bringing the balance held in this reserve to £2,530.7m. Information relating to reserves is disclosed in note 16 to the statutory financial statements.

Research and development

The company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2013/14, £8.7m was committed to research and development including £8.4m capital expenditure.

Fixed assets

The directors are aware that the value of certain land and buildings in the balance sheet may not be representative of their market value. However, a substantial proportion of land and buildings comprises specialised operational properties and structures for which there is no ready market and it is not therefore practicable to provide a full valuation.

Movements in fixed assets include transfers to KeyLand Developments Limited, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by Ofwat. With effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by Ofwat.

Revaluation of assets

Certain classes of the company's tangible fixed assets, infrastructure assets, were revalued at 31 March 2012 as detailed in note 7 to the statutory financial statements.

Certain classes of the company's land and buildings are also held at valuation, on the basis of existing use, 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. 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.

These assets will continue to be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £343.5m (2013: £385.7m). More information relating to capital expenditure and fixed assets is disclosed in note 7 to the statutory financial statements.

Instrument of Appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory financial statements.

Employees and employment policies

The company continues to strive to create a positive working environment for all colleagues and to develop open and trusted relationships. The company 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 company values set the framework for how the company expects colleagues and partners to behave with each other, with customers and with external stakeholders.

Great communications lie at the heart of engaging with colleagues. The company 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 company 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 the company 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 company, 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 company demonstrates its commitment to effective and two way communication through its information and consultation framework. Collection bargaining arrangements are in place with the company's recognised trade unions – UNISON, GMB and Unite. In addition, Communication and Consultation forums take place across the company, comprising elected union and non-union employees meeting regularly with directors and senior managers. At these meetings the company shares performance information, discusses health and safety issues 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 company is committed to providing a diverse and inclusive working environment which reflects its customer base. This is integral to the delivery of the SBOs and the company's 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 company 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 company's work and the services it provides, the company is supported in maintaining sector leading performance.

The company 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 company'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 company'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 company 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 company's Responsible Leader framework which focuses on Knowing the World of Water; Operational Excellence; and Personal Leadership. The company provides a wide range of development tools, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. 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 company builds appropriate development programmes and better understand its 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 company 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 company 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 company has invested in an eLearning platform that will increase the access of learning and development across the company.

As well as developing a talent management culture to help drive business success, the company has several resourcing solutions which are well regarded. The company's award winning graduate recruitment programme has a strong reputation and has been recognised at both regional and national levels. In 2011 and 2012 the company was named as the graduate employer of choice in the private sector in Yorkshire. In addition, the Guardian newspaper named the company in its Top 10 Graduate Employers for Energy and Utilities for the past three consecutive years following its biggest ever survey of UK graduates. The company'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 company 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.

Greenhouse gas emissions

A breakdown of the company's emissions can be found in the Sustainable resources SBO section of the Strategic Report.

Political donations

The company 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 company and stakeholders. This includes promoting the company'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.

Directors' statement as to responsibilities

The directors consider that this annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders and other stakeholders to assess the company's performance, business model and strategy.

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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and the board has passed a resolution confirming their reappointment.

For the purposes of the Companies Act 2006, the Directors' Report for the year ended 31 March 2014 comprises the Corporate Governance Report, the Directors' Remuneration Report and the Directors' Report on pages 48 to 67.

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors' Report was approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on its behalf by:

Richard Flint
Chief Executive

14 July 2014

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

Registered in England no. 2366682

Statutory financial statements
Profit and loss account
For the year ended 31 March 2014

	Note £m	2014 £m	2013 £m
Turnover		**984.2**	936.2
Operating costs	2	**(654.0)**	(604.7)
Operating profit	2	**330.2**	**331.5**
Net interest payable and similar charges before exceptional credit	3	**(188.0)**	(193.3)
Non-operating exceptional credit	3	–	48.0
Net interest payable and similar charges – total	3	**(188.0)**	**(145.3)**
Profit on ordinary activities before taxation		**142.2**	**186.2**
Tax on profit on ordinary activities	4	**60.9**	62.3
Profit for the financial year	16	**203.1**	**248.5**

All of the above results relate to continuing activities.

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the revaluation of certain tangible fixed assets.

Statement of total recognised gains and losses
For the year ended 31 March 2014

	Note £m	2014 £m	2013 £m
Profit for the financial year		**203.1**	248.5
Surplus on revaluation of tangible assets	7	**17.2**	
Total recognised gain for the financial year		**220.3**	**248.5**

Balance sheet

As at 31 March 2014

	Note	2014 £m	2013 £m
Fixed assets			
Intangible assets	6	4.7	5.7
Tangible assets	7	6,369.9	6,279.6
Investments	8	0.1	0.1
		6,374.7	6,285.4
Current assets			
Stocks	9	0.7	1.1
Debtors falling due within one year	10	201.5	185.9
Debtors falling due after more than one year	10	1,265.1	1,273.3
Debtors – total	10	1,466.6	1,459.2
Cash at bank and in hand	12	28.5	32.0
		1,495.8	1,492.3
Creditors: amounts falling due within one year			
Short term borrowings	12	(58.5)	(53.8)
Other creditors	11	(297.6)	(317.3)
		(356.1)	(371.1)
Net current assets		1,139.7	1,121.2
Total assets less current liabilities		7,514.4	7,406.6
Creditors: amounts falling due after more than one year			
Long term borrowings	12	(4,530.4)	(4,410.9)
Other creditors	11	(95.1)	(104.0)
		(4,625.5)	(4,514.9)
Provisions for liabilities	14	(327.4)	(385.1)
Net assets		2,561.5	2,506.6
Capital and reserves			
Called-up share capital	15	10.0	10.0
Profit and loss account	16	2,530.7	834.9
Share based payment reserve	16	3.6	3.5
Revaluation reserve	16	17.2	1,658.2
Total shareholders' funds	16	2,561.5	2,506.6

The financial statements on pages 68 to 89 were approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on their behalf by:

Richard Flint
Chief Executive
14 July 2014

Yorkshire Water Services Limited
Registered in England no. 2366682

Notes to the financial statements

For the year ended 31 March 2014

1. Accounting Policies

The following paragraphs summarise the more important accounting policies applied in the preparation of the financial statements.

Basis of preparation and accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain tangible fixed assets, in compliance with all applicable United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006.

The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the company's circumstances, have been consistently applied and are supported by reasonable and prudent estimates and judgements.

The financial statements present information about the company as an individual company undertaking and do not contain consolidated financial information as the parent of a group. The company is exempt from preparing group financial statements under Section 400 of the Companies Act 2006 as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate UK parent, Kelda Eurobond Co Limited, a company registered in England and Wales.

The financial statements do not include a cashflow statement because the cashflows of the company are consolidated in the cashflow statement of the Kelda Eurobond Co Limited of which Yorkshire Water is a wholly owned subsidiary. The company has therefore taken advantage of the exemption from preparing a cashflow statement under the terms of FRS 1 (Revised 1996).

Turnover

Turnover comprises charges to customers for water, sewerage and other services excluding value added tax and arises only in the United Kingdom.

Turnover is not recognised until the service has been provided to the customer. Turnover relates to charges due in the year, excluding any amounts paid in advance. Turnover for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No turnover is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant turnover is cancelled. Generally a property is classed as void if it is unoccupied and unfurnished.

Pensions

The company accounts for its pensions in accordance with FRS 17 'Retirement Benefits'. A majority of the company's employees participate in the Kelda Group Pension Plan (KGPP), a group defined benefit pension scheme as described in note 19 of the financial statements. The KGPP is a group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other companies in the KGPP. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it was a defined contribution scheme. The KGPP closed to new members in 2006. The company also provides a defined contribution scheme, Kelda Stakeholder+, which is available to new and existing employees.

Research and development expenditure

Research and development expenditure is written off in the profit and loss account in the financial year in which it is incurred. Expenditure on fixed assets relating to development projects is written off over the expected useful life of those assets.

Taxation

The taxation charge is based on the result for the year as adjusted for disallowable and non-taxable items using current rates and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes.

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

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

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted at the rate of post-tax yields on Government gilts with equivalent maturity dates and currency to those of the deferred tax balance, at the balance sheet date.

Intangible assets

Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised and amortised on a straight line basis over its economic useful life, which normally will not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. When it is determined that the carrying value of goodwill exceeds the recoverable amount, the excess is written off to the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets comprise the following:

i) Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets to increase capacity or enhance the network and to maintain the operating capability of the network in accordance with defined standards of service is treated as a fixed asset addition and included at cost after deducting grants and contributions.

Following a change in accounting policy in 2012, infrastructure assets are held at valuation with external valuations being undertaken on a periodic basis. An interim valuation is performed in the intervening years if in the view of the directors there has been a material change. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network based on an independently certified asset management plan.

Adopted assets, including private drains and sewers, are recognised at cost, which is generally £nil.

ii) Other tangible fixed assets

Following a change in accounting policy in 2009, residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible fixed assets are included at cost, which represents the purchase price, less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are expensed as incurred.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets (including those assets held at valuation, where appropriate) on a straight line basis over their estimated economic lives, or the estimated useful economic lives of their individual major components, from the month following commissioning. Useful economic lives are principally as follows:

Buildings	25 – 100 years
Fixed plant	5 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

Fixed plant, vehicles, mobile plant and computers are classified as plant and equipment within note 7. Assets under construction are not depreciated until they are brought into use.

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 performed in the intervening years if in the view of the directors there has been a material change.

iii) Leased assets

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in tangible fixed assets and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the profit and loss account 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 profit and loss account over the term of the lease in proportion to the capital amount outstanding.

All other leases are operating leases and the rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Grants and contributions

Grants and contributions in respect of tangible assets, other than infrastructure assets as described below, are deferred and credited to the profit and loss account by instalments over the expected economic useful lives of the related assets.

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with the Companies Act 2006, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. The presentation is adopted because infrastructure assets do not have determinable finite lives and therefore such grants and contributions would remain as liabilities in perpetuity. The directors consider that the company's presentation shows a true and fair view of the investment in infrastructure assets.

Grants and contributions received in respect of expenditure charged to the profit and loss account during the year are included in the profit and loss account.

Investments

Other fixed asset investments are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Stock

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

Receipts in advance

Receipts in advance include the monies received from customers where the related turnover has not yet been recognised and also grants and contributions received in relation to capital schemes where the work has not yet commenced. They are recognised within other creditors until the related revenue or costs are recognised.

Foreign currencies

Individual transactions denominated in foreign currencies are translated into sterling at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the balance sheet date. Profits and losses on both individual currency transactions settled during the year and unsettled monetary assets and liabilities are dealt with in the profit and loss account.

Provisions for liabilities

Provisions for liabilities are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision is made in accordance with FRS 12 'Provisions, contingencies and commitments' for self insured claims, including an estimate for claims incurred but not reported.

Provisions also include index linked swaps novated from Saltaire Water Ltd to Yorkshire Water in August 2008.

Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value and are held in the balance sheet as a provision. This provision is being amortised over the life of the swaps (38 years) and is not discounted. This provision is reviewed at each balance sheet date against the mark to market valuation of the swaps.

Financial instruments

Trade debtors and creditors

Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated recoverable amounts. There is no intention to trade the debtors. Trade creditors are not interest bearing and are stated at their invoiced value.

Interest rate swaps and cross-currency interest rate swaps

Interest rate swaps (and cross-currency interest rate swaps) are used to hedge the company's exposure to fluctuations in interest rates and foreign exchange rates on its borrowings. The amounts payable or receivable in respect of interest rate swaps are accounted for on an accruals basis through adjustments to the interest expense of the corresponding liability.

Index linked swaps

Index linked swaps are intended to hedge Yorkshire Water's exposure to movements in RPI against its LIBOR linked borrowings.

Yorkshire Water applies hedge accounting for its swaps to the extent that there is sufficient floating rate debt within Yorkshire Water, over the entire life of the swap, from existing or expected future debt. To the extent that there is insufficient floating rate debt and the mark to mark valuation of the swap is negative, any exposure relating to the portion of the swap that is not hedged is provided for in the balance sheet as an onerous contract provision.

The swaps have three cashflows:

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

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet is calculated based on the RPI at the measurement date, accrued in the profit and loss account and recognised within long term borrowings.

These swaps were novated to Yorkshire Water from Saltaire Water Ltd in August 2008 at which time the swaps were out of the money by £308.9m. This value was reflected in Yorkshire Water's balance sheet as an intercompany debtor, with a provision for the same amount. The onerous contract provision above takes into account the amortised novation provision. Refer to note 13 of the financial statements for more information in relation to the index linked swaps.

The calculation of the onerous contract provision takes account of both the RPI swaps and the interest rate (finance lease) swaps. In line with FRS12 the provision required is assessed on an annual basis and movements in the provision are shown as exceptional interest costs (note 3).

The company is not required to prepare its financial statements in accordance with FRS 26 and apart from the provisions noted above its index linked swaps are not recognised in the financial statements in accordance with UK GAAP (note 13).

2. Operating profit

Operating profit is stated after (crediting)/charging:

		2014 £m	2013 £m
Own work capitalised		**(36.0)**	(39.1)
Raw materials and consumables		**30.4**	29.4
Other external charges		**279.3**	261.6
Wages and salaries		**78.6**	79.7
Social security costs		**7.2**	7.5
Other pension costs (note 19)		**24.5**	28.5
Depreciation and impairment of fixed tangible assets (note 7):			
On owned assets	– infrastructure	**89.3**	63.3
	– other assets	**172.0**	164.9
On assets held under finance leases	– infrastructure	**1.4**	1.0
	– other assets	**7.7**	8.2
Operating lease charges	– plant and equipment	**2.2**	1.9
	– other	**1.4**	1.8
Amortisation of grants and contributions		**(2.9)**	(2.9)
Amortisation of goodwill (note 6)		**1.0**	0.9
Restructuring costs		**5.7**	1.5
Research and development		**0.3**	0.7
Other operating income		**(8.1)**	(4.2)
		654.0	**604.7**

Services provided by the company's auditors

During the year the company obtained the following services from its auditors at costs as detailed below:

	2014 £'000	2013 £'000
Fees payable for the audit	122	124
Fees payable for other services	122	63
	244	**187**

Average monthly number of employees

The average monthly number of persons employed by the company during the year was:

	2014 Number	2013 Number
Operational	1,698	1,879
Capital investment	160	110
Administration	557	520
Total average number of employees	**2,415**	**2,509**

Directors emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	3,820	4,215
The amounts in respect of the highest paid director are as follows:	**1,148**	**1,091**

All executives have service agreements which are terminable by the company on 12 months' notice.

During 2013/14, all except three executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. Three directors were contributory members of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2013/14 was £98,716 (2013: £88,298).

Kevin Whiteman, Richard Flint and Liz Barber were directors of Kelda Holdings Ltd during 2013/14. Their emoluments are shown here in full however they carry out other Group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant Group company.

The aggregate emoluments disclosed above differ from those detailed in the Directors' Remuneration Report because the above figures include an accrual for LTIPS which have not yet been paid. For more details regarding directors' emoluments refer to the Directors Remuneration Report on pages 48 to 61.

3. Net interest payable and similar charges

	2014 £m	2013 £m
Interest receivable and similar income:		
Inter-company loans	**(62.1)**	(68.7)
Index linked swaps	**(7.8)**	(14.0)
Amortisation of fair value of index linked swaps (note 10)	**(8.3)**	(8.1)
Net interest receivable in swaps on bonds in Yorkshire Water Services Bradford Finance Limited	**(11.6)**	(4.7)
Other	**(0.1)**	(0.2)
	(89.9)	**(95.7)**
Interest payable and similar charges:		
Bank loans and overdrafts	**13.8**	16.4
Finance leases	**4.8**	7.1
Inter-company loans	**198.8**	193.8
RPI uplift on index linked swaps	**15.6**	27.7
Interest rate swap interest	**2.3**	1.9
Index linked swaps coupon payable	**39.6**	38.3
Other	**3.0**	3.8
	277.9	**289.0**
Net interest payable	**188.0**	**193.3**

Net interest payable includes one off, non-recurring fees of £0.7m (2013: £0.8m).

Interest payments on various finance leases due around the beginning and end of the financial year were paid either side of 31 March resulting in net £9.2m lower (2013: £10.0m higher) interest payments during the year. These pre year-end payments are included within prepayments (note 10) and are not included within the interest charge shown above.

Yorkshire Water holds certain index linked swaps with a nominal value of £1,289m which had an adverse market value of £1,532.0m at 31 March 2014 (2013: £1,729.0m). At 31 March 2013 it was concluded that due to the levels of floating rate debt held which now offset the floating rate element of the swaps, the swaps no longer constituted an onerous contract under FRS12. The provision held at 31 March 2012 of £48.0m relating to the onerous contract was therefore released during 2012/13 resulting in an exceptional credit of £48.0m. This position has been reviewed at the balance sheet date and it is the view of the directors that no provision is required. See note 13.

£62.1m (2013: £68.7m) interest receivable on amounts owed on Group undertakings during the year was received from Kelda Holdco Limited.

4. Tax credit on profit on ordinary activities

	2014 £m	2013 £m
Current tax		
Corporation tax at 23% (2013: 24%)	0.4	0.8
Adjustments in respect of prior years	–	(4.7)
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(11.7)	–
Total current tax	**(11.3)**	**(3.9)**
Deferred tax		
Charge for timing differences arising and reversing in the year	1.7	4.0
Adjustment in respect of prior years	(0.1)	1.1
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(32.3)	–
	(30.7)	**5.1**
Increase/(decrease) in discount	32.7	(45.0)
Impact of change in tax rate	(51.6)	(18.5)
Total deferred tax (note 14)	**(49.6)**	**(58.4)**
Total tax credit	**(60.9)**	**(62.3)**

Note 14 shows further detail on the discounting of the deferred tax provision.

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%).

The difference between the total current tax charge shown and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2014 £m	2013 £m
Profit on ordinary activities before tax	142.2	186.2
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013: 24%)	**32.7**	**44.7**
Effects of:		
Income not chargeable for tax purposes	(2.6)	(5.8)
Expenses not deductible for tax purposes (non-qualifying depreciation)	6.6	5.4
Capital allowances more than depreciation and other timing differences	(1.8)	(3.4)
Movement in short term timing differences	–	–
Effect of gains (including rollover relief)	(0.9)	(0.2)
Utilisation of tax losses in other Group companies	(33.6)	(39.9)
Adjustments in respect of prior years	–	(4.7)
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(11.7)	–
Current tax credit for the year	**(11.3)**	**(3.9)**

Current tax and deferred tax adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC

In 2014, Yorkshire Water, along with other water companies, reached agreement with HM Revenue & Customs in relation to capital expenditure, particularly in respect of the abolition of industrial buildings allowances in 2008 that affected a number of prior years.

The company had made provisions in previous years to manage uncertainties in relation to capital allowances on capital expenditure. As discussions have been concluded regarding the appropriate tax treatment, the relevant tax provisions that were previously held have been released and are reflected in prior year tax credits to the company's profit and loss account.

Factors affecting future tax

Whilst Yorkshire Water continues to prepare financial statements under current UK GAAP, the tax charge in future periods will continue to be affected by changes in the medium and long-term interest rates used to discount deferred tax assets and liabilities that will affect the amount of deferred tax charged in the profit and loss account.

The Finance Act 2013 introduced a reduction in the rate of corporation tax from 23% to 21% from 1 April 2014 and 21% to 20% from 1 April 2015. These rates were substantively enacted on 2 July 2013 and, therefore, are included in these financial statements. No further changes to the corporation tax rate have been announced.

Of the net cash tax received by Yorkshire Water of £2.5m, £2.1m relates to the regulated business.

5. Dividends

	2014 £m	2013 £m
Dividends of 8.28 pence (2013: 25.66 pence) per share paid in the year	165.5	256.6
	165.5	**256.6**

No final dividend for the year has been proposed.

£70.3m (2013: £78.1m) was distributed to Kelda Holdco Limited in order to allow Kelda Holdco Limited to make an interest payment and loan repayment on their loan from Yorkshire Water.

During the year ending 31 March 2014 the company issued an additional 10,000,000 ordinary shares and reduced the nominal share value from £1 per share to 50p per share. See note 16 for further details.

6. Intangible assets

	Goodwill £m
Cost	
Balance at 1 April 2013 and 31 March 2014	17.9
Accumulated amortisation	
Balance at 1 April 2013	(12.2)
Charge for the year	(1.0)
Balance at 31 March 2014	(13.2)
Net book amount as at 31 March 2014	**4.7**
Net book amount as at 31 March 2013	5.7

Goodwill arose on the transfer of the trade and net assets of The York WaterWorks Ltd on 1 April 2000 and is being amortised over 19 years. The directors do not believe this should be impaired as it relates to assets which are still in continuing use within the business.

7. Tangible assets

	Land and buildings	Infrastructure assets	Plant and equipment	Under construction	Total
Cost or valuation					
At 1 April 2013	1,808.3	4,535.0	2,765.5	469.2	9,578.0
Additions	63.3	114.2	120.0	58.9	356.4
Transfers on commissioning	24.1	10.5	44.4	(79.0)	–
Disposals	(3.9)	–	(14.1)	(0.5)	(18.5)
Net surplus on revaluation	17.2	–	–	–	17.2
Grants and contributions	–	–	–	(11.8)	(11.8)
At 31 March 2014	**1,909.0**	**4,659.7**	**2,915.8**	**436.8**	**9,921.3**
Accumulated depreciation					
At 1 April 2013	594.6	1,200.9	1,502.9	–	3,298.4
Disposals	(3.1)	–	(13.8)	(0.5)	(17.4)
Impairment on revaluation	0.9	–	–	–	0.9
Depreciation for the year	30.7	90.7	147.6	0.5	269.5
At 31 March 2014	**623.1**	**1,291.6**	**1,636.7**	**–**	**3,551.4**
Closing net book amount	**1,285.9**	**3,368.1**	**1,279.1**	**436.8**	**6,369.9**
Opening net book amount	1,213.7	3,334.1	1,262.6	469.2	6,279.6
At 31 March 2014 assets above held under finance leases amounted to:					
Cost	108.6	71.3	181.9	–	361.8
Depreciation	35.3	25.8	133.5	–	194.6
Closing net book amount	**73.3**	**45.5**	**48.4**	**–**	**167.2**
Opening net book amount	75.0	47.1	54.2	–	176.3

The net book amount of land and buildings comprised:	Cost at 31 March 2014 £m	Depreciation at 31 March 2014 £m	Net book value at 31 March 2014 £m	Net book value at 31 March 2013 £m
Freehold properties	1,903.2	(621.2)	1,282.0	1,209.5
Properties held on long lease	0.6	–	0.6	0.5
Properties held on short lease	5.2	(1.9)	3.3	3.7
	1,909.0	**(623.1)**	**1,285.9**	**1,213.7**

Capital additions of £356.4m (2013: £398.0m) as shown in the table opposite includes £53.5m (2013: £62.7m) of infrastructure renewals expenditure, as disclosed in note 7 of the Regulatory Accounts. Were Yorkshire Water accounting under International Financial Reporting Standards (as adopted by the European Union) and applying IAS 16, £16.1m (2013: £16.6m) of the infrastructure renewals expenditure would not meet the recognition criteria of property, plant and equipment and would be expensed to the profit and loss account. In addition, under IAS 16, depreciation of infrastructure assets would amount to £56.1m, rather than £90.7m shown in the table opposite.

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The company's accounting policy in respect of grants and contributions is a departure from the Companies Act 2006 requirements and is adopted, as explained in the accounting policy note on page 72, in order to show a true and fair view of the investment in infrastructure assets. A review of deferred income during the year has resulted in a transfer of certain grants from deferred income to tangible fixed assets.

Infrastructure assets were revalued at 31 March 2012. These valuations were performed in accordance with FRS 15 which requires that assets subject to a policy of revaluation should be carried at their current value.

Current value is defined in FRS 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value (NRV) and Value in Use (VIU). Having considered the above definitions of value, 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 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 and other adjustments) 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.

Certain categories of the company's land and buildings are also held at valuation, on the basis of existing use, 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 Ltd
Rural estates	Carter Jones LLP
Residential properties	Savills (L&P) Ltd

These external valuations will be re-performed on a periodic basis in accordance with FRS 15. 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. 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 £3,080.3m (2013: £2,955.2m).

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

Categories of assets revalued are as follows:

	Valuation £m	Historical cost basis £m
Infrastructure assets	3,368.1	1,760.2
Non-specialist properties	18.6	16.3
Rural estates	60.3	0.5
Residential properties	3.1	–
	3,450.1	**1,777.0**

Analysis of the net book value of revalued non-specialised land and buildings is as follows:

31 March 2012	68.7	17.5
Disposal of revalued assets	(0.5)	–
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2013	67.5	17.1
Additions to revalued assets	0.4	0.4
Valuation surplus recognised during the year (net of impairment)	16.3	–
Disposal of revalued assets	(1.5)	(0.3)
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2014	**82.0**	**16.8**

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

Cost at 31 March 2014	4,659.7	3,051.8
Aggregate depreciation	(1,291.6)	(1,291.6)
Net book value at 31 March 2014	**3,368.1**	**1,760.2**
Cost at 31 March 2013	4,535.0	2,927.1
Aggregate depreciation	(1,200.9)	(1,200.9)
	3,334.1	**1,726.2**

There have been no disposals or transfers of revalued infrastructure assets during the year.

If the revalued assets noted above were sold at the values shown, a tax charge of £72.7m would arise. Yorkshire Water has no plans to dispose of infrastructure assets as they form an integral part of the business.

8. Investments

Investments of £0.1m at 31 March 2014 and 31 March 2013 includes £27,119 of 8% Unsecured Loan Stock in Water Research Centre (1989) plc, which conducts research on behalf of the water industry.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The company has taken advantage of the exemption from preparing group financial statements under section 400 of the Companies Act 2006. Consolidated financial statements have been prepared by Kelda Eurobond Co Limited, the largest UK group to consolidate these financial statements. Copies can be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

9. Stocks

	2014 £m	2013 £m
Raw materials and consumables	**0.7**	1.1

10. Debtors

	2014 £m	2013 £m
Receivable within one year:		
Trade debtors	**90.0**	82.0
Amounts owed by Group undertakings	**18.9**	18.1
Amounts owed by subsidiary undertakings	**2.3**	2.3
Prepayments and accrued income	**65.5**	62.6
Taxation receivable	**14.0**	4.9
Other debtors	**10.8**	16.0
	201.5	**185.9**
Receivable after more than one year:		
Amounts owed by Group undertakings	**1,265.1**	1,273.2
Other debtors	**–**	0.1
	1,265.1	**1,273.3**
Total debtors	**1,466.6**	**1,459.2**

Amounts owed by Group undertakings within one year and after more than one year includes £264.2m (2013: £272.3m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Ltd to Yorkshire Water in August 2008 and £1,009.0m upstream loans to Kelda Holdco Limited (2013: £1,009.0m).

Amounts due after more than one year by Group undertakings are unsecured, bear interest at 6 month London Interbank Offered Rate (LIBOR) plus 4.25%, have no fixed repayment date and are repayable on demand.

11. Other creditors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade creditors	**52.8**	57.3
Capital creditors	**64.4**	99.7
Deferred grants and contributions on depreciating fixed assets	**2.8**	2.9
Amounts owed to Group undertakings	**8.4**	6.7
Amounts owed to subsidiary undertakings	**78.5**	76.8
Taxation and social security	**1.9**	2.0
Receipts in advance	**56.7**	50.6
Other creditors and accruals	**32.1**	21.3
	297.6	**317.3**
Amounts falling due after more than one year:		
Deferred grants and contributions on depreciating fixed assets	**50.8**	53.1
Other creditors	**44.3**	50.9
	95.1	**104.0**

Amounts owed to subsidiary companies are in relation to accrued interest on debt raised by subsidiaries and lent to Yorkshire Water to finance its operations.

12. Borrowings and cash at bank and in hand

Borrowings and cash at bank and in hand:

	Bank loans and overdrafts 2014 £m	Other loans 2014 £m	Finance leases 2014 £m	Total 2014 £m
Short term borrowings:				
In one year or less or on demand	29.7	–	28.8	**58.5**
Long term borrowings:				
In more than one year, but not more than two years	29.0	–	33.6	**62.6**
In more than two years, but not more than five years	109.9	13.3	98.3	**221.5**
In more than five years	167.2	94.4	102.1	**363.7**
	306.1	**107.7**	**234.0**	**647.8**
Amounts owed to Group companies				**3,882.6**
				4,530.4
Cash at bank and in hand				**(28.5)**
Amounts owed from Group companies				**(1,009.0)**
Net debt at 31 March 2014				**3,551.4**

Borrowings and cash at bank and in hand:

	Bank loans and overdrafts 2013 £m	Other loans 2013 £m	Finance leases 2013 £m	Total 2013 £m
Short term borrowings:				
In one year or less or on demand	45.6	–	8.2	**53.8**
Long term borrowings:				
In more than one year, but not more than two years	28.6	–	28.8	**57.4**
In more than two years, but not more than five years	103.5	11.4	119.2	**234.1**
In more than five years	202.7	80.8	114.8	**398.3**
	334.8	**92.2**	**262.8**	**689.8**
Amounts owed to Group companies				**3,721.1**
				4,410.9
Cash at bank and in hand				**(32.0)**
Amounts owed from Group companies				**(1,009.0)**
Net debt at 31 March 2013				**3,423.7**

Net debt as shown in the table above is different from that disclosed in Note 9 of the Regulatory Accounting Information. Ofwat guidance requires that amounts owed from group companies be excluded from Net Debt as presented in the Regulatory Accounting Information.

Net amounts owed to Group companies includes £1,009.0m receivable (2013: £1,009.0m) in relation to loans to parent companies. This is disclosed within debtors receivable after more than one year.

Amounts owed to Group companies includes loans from other members of the Yorkshire Water financing group relating to bonds originally held by Yorkshire Water Services Finance Limited, subsequently exchanged for bonds held by Yorkshire Water Services Odsal Finance Ltd (see note 3 to the regulatory accounts).

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies.

When calculating the consolidated debt position it should be noted that the book value recorded in these financial statements on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Limited financial statements by £34.0m (2013: £36.0m), which account for the exchanged bonds in line with International Accounting Standard 39.

Net debt includes unamortised issue costs of £2.7m (2013: £2.4m).

Borrowings repayable in instalments after more than five years include £114.9m (2013: £114.8m) in respect of finance leases which have expiry dates ranging from 2018 to 2043 and carry interest rates based on 12 month LIBOR and 6 month LIBOR. The finance lease creditors are secured on the underlying assets.

As at 31 March 2014 Yorkshire Water had access to undrawn committed bank facilities totalling £328.0m (2013: £335.0m). The current committed bank facilities expire in October 2018. The cash at bank includes £1.1m (2013: £6.4m) of cash ring fenced in a swap collateral account. This balance is therefore excluded from covenant calculations.

13. Financial derivatives

Interest rate swaps

Yorkshire Water holds £45.0m nominal value (2013: £45.0m) of floating to fixed rate interest swaps. These swaps are held at amortised cost of £nil, but had an out of the money mark to market value of £17.6m at 31 March 2014 (2013: £22.6m).

Yorkshire Water holds £340m nominal value (2013: £250m) of fixed to floating rate interest swaps. These swaps are held at amortised cost of £nil, had an out of the money mark to market of £30.4m at 31 March 2014 (2013: £7.3m).

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of the US 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 floating rate sterling interest payments. These swaps are held at amortised cost of £nil, but had a positive mark to market value of £23.6m at 31 March 2014 (2013: £19.0m adverse).

Yorkshire Water hedges the fair value of the Australian Dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are held at amortised cost of £nil, but had a positive mark to market value of £7.7m at 31 March 2014.

Index linked swaps

In February 2008, Saltaire Water Limited, at that time an intermediate parent company, entered into certain index linked ('IL') swaps, with a nominal value of £1,289.0m. These swaps were novated to Yorkshire Water in August 2008 at which time the swaps had an adverse market value of £308.9m. This value was reflected in Yorkshire Water's balance sheet as an intercompany debtor, receivable from Saltaire Water Limited, with a provision for the same amount. The provision is amortised through the Yorkshire Water profit and loss account over a 38 year period (being the weighted average life of the swaps at the time of novation) and for 2013/14 the amortisation charge was £8.3m (2013: £8.1m).

A proportion of these swaps have mandatory break dates prior to the ultimate maturity date and during 2011/12 the portfolio was re-profiled such that break dates in 2012 and 2014 were removed. This was achieved by, amongst other things, moving a proportion of the swap portfolio (£463.0m) to a Pay-As-You-Go (PAYG) structure whereby Yorkshire Water paid down the RPI accretion to date at the time of the restructure and agreed to pay future RPI accretions at five yearly intervals. Swaps not subject to a PAYG structure pay RPI accretion in one single payment on maturity.

Post the restructure, the total nominal amount of the swaps remained unchanged at £1,289.0m with maturity dates ranging from 2026 to 2063; £837.0m of the restructured swap portfolio have no mandatory break dates. The remaining swaps totalling £452.0m have break dates in 2018, 2020, 2023 and 2025.

There are three cashflows associated with the swaps:

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

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date is discounted using an average of the 25 and 30 year gilt rate at the relevant date, accrued in the profit and loss account and recognised within long term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short term, these swaps gave rise to an out of the money mark to market value of £1,532.0m (2013: £1,729.0m) at the year-end date. Of this £107.7m (2013: £92.2m) has been recognised within long term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2014. The RPI bullet accrued to 31 March 2014 was £229.2m (2013: £188.7m) which has been reduced by £121.5m (2013: £96.5m) when discounted to present values.

A further £263.0m is included within provisions for liabilities and charges (2013: £271.3m) (note 14) relating to the amortised provision created on novation of the swaps discussed above.

When calculating the size of the provision required at 31 March 2014, the directors have considered:

- the proportion of the swaps that are effectively hedging the floating rate debt held by Yorkshire Water and the further floating rate debt to be taken out by Yorkshire Water; and
- the fact that the swaps are held for the long term benefit of the business and provide a hedge against existing and future floating rate debt as Yorkshire Water gears up in the foreseeable future under the securitised structure.

At 31 March 2012 an onerous contract provision of £48.0m was held representing the unhedged portion of the mark to market that is not sufficiently provided for by the novation provision. The increase in index linked debt during the year ended 31 March 2013, which continues to be held at 31 March 2014, however means that the swaps no longer constitute an onerous contract in line with FRS12. The provision held of £48.0m was therefore released during the year ended 31 March 2013 as an exceptional credit.

All of the swaps outlined above were valued using information provided by external consultants, using a discounted cash flow model and quoted market information. This information is reviewed by the Group treasury department and discussed with relevant directors to ensure it is appropriate for use.

14. Provisions for liabilities

	Index linked swaps provision £m	Deferred tax £m	Self insurance £m	Total £m
At 1 April 2012	327.4	171.7	0.7	499.8
Credited to the profit and loss account or utilised in the year	(56.1)	(58.4)	(0.2)	(114.7)
At 31 March 2013	271.3	113.3	0.5	385.1
Credited to the profit and loss account and utilised in the year	(8.3)	(49.6)	0.2	(57.7)
At 31 March 2014	**263.0**	**63.7**	**0.7**	**327.4**

Deferred tax

	2014 £m	2013 £m
At 1 April	113.3	171.7
Deferred tax credited to the profit and loss account	(17.2)	(59.5)
Adjustments in respect of prior years	(0.1)	1.1
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(32.3)	–
At 31 March	**63.7**	**113.3**

The corporation tax rate of 20% (2013: 23%) has been used to calculate the amount of deferred tax. In accordance with FRS 19 in order to reflect the time value of money, the company discounts its deferred tax liability. The period of discounting runs until the underlying timing differences completely reverse. In carrying out this calculation, all future movements in the accelerated capital allowances and depreciation charges are scheduled out on a yearly basis, taking account of future depreciation rates. No account is taken of timing differences that might arise on fixed assets expected to be purchased in the future. The discount rate used is the post-tax yield on Government gilts with equivalent maturity dates and currency to those of the deferred tax balance, at the balance sheet date. The deferred tax credit for the year is shown in note 4.

15. Called up share capital

	Allotted and fully paid shares of 50 pence each 2014 No.	Allotted and fully paid shares of £1 each 2013 No.	Allotted and fully paid 2014 £	Allotted and fully paid 2013 £
Ordinary shares	**20,000,000**	10,000,000	**10,000,000**	10,000,000

Details of the share movement can be found in note 16.

16. Reconciliation of movements in shareholders' funds and movement in reserves

	Profit and loss account	Share premium account	Share-based payment reserve	Called up share capital	Revaluation reserve	Total shareholders' funds
At 1 April 2012	842.7	–	3.5	10.0	1,659.0	2,515.2
Profit for the year	248.5	–	–	–	–	248.5
Dividends	(256.6)	–	–	–	–	(256.6)
Revaluation reserve released during the year	0.8	–	–	–	(0.8)	–
Other	(0.5)	–	–	–	–	(0.5)
At 31 March 2013	**834.9**	**–**	**3.5**	**10.0**	**1,658.2**	**2,506.6**
Profit for the year	203.1	–	–	–	–	203.1
Dividends	(165.5)	–	–	–	–	(165.5)
Shares issued during the year	–	1,648.2	–	10.0	(1,658.2)	–
Capital reduction	1,658.2	(1,648.2)	–	(10.0)	–	–
Other	–	–	0.1	–	–	0.1
Surplus on revaluation	–	–	–	–	17.2	17.2
At 31 March 2014	**2,530.7**	**–**	**3.6**	**10.0**	**17.2**	**2,561.5**

On 24 July 2013, the revaluation reserve of £1,658.2m was fully capitalised by way of issuance and allotment of 10,000,000 ordinary shares of £1 each at a premium of £164.82 per share.

On the same day, the share capital of the company was reduced by cancelling paid up share capital to the extent of 50p upon each of the 20,000,000 issued ordinary shares of £1 each and reducing the nominal value of each share to 50p. At the same time the share premium account was reduced from £1,648.2m to £nil.

17. Capital and other financial commitments

	2014 £m	2013 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**331.3**	326.2

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2010 to 2015, was agreed as part of the Price Review process which was finalised in December 2009.

At the year end the company was committed to making the following annual payments during the next financial year under non-cancellable operating leases expiring as set out below:

	Land and buildings 2014 £m	Other 2014 £m	Land and buildings 2013 £m	Other 2013 £m
Leases which expire:				
Within one year	**–**	**0.1**	0.1	0.2
Between two and five years	**–**	**1.8**	–	1.9
After five years	**1.5**	**–**	1.2	–
	1.5	**1.9**	**1.3**	**2.1**

18. Contingent liabilities

The banking arrangements of the company operate on a pooled basis with other Group companies and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Limited, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited at 31 March 2014:

	Nominal £m	Coupon %	Maturity	Liability at 31 March 2014 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.8	5.375%	2023	4.3
Yorkshire Water Services Finance Limited	7.4	5.500%	2027	6.3
Yorkshire Water Services Finance Limited	0.2	6.625%	2031	0.7
Yorkshire Water Services Finance Limited	200.0	5.500%	2037	195.1
Yorkshire Water Services Odsal Finance Limited	29.9	6.588%	2023	29.9
Yorkshire Water Services Odsal Finance Limited	180.8	6.588%	2023	180.8
Yorkshire Water Services Odsal Finance Limited	135.5	6.454%	2027	135.5
Yorkshire Water Services Odsal Finance Limited	255.0	6.601%	2031	255.0
Yorkshire Water Services Bradford Finance Limited	275.0	6.000%	2019	273.6
Yorkshire Water Services Bradford Finance Limited	200.0	6.375%	2039	198.3
Yorkshire Water Services Bradford Finance Limited	100.0	6.375%	2039	107.0
Yorkshire Water Services Bradford Finance Limited	450.0	6.000%	2025	447.9
Yorkshire Water Services Bradford Finance Limited	18.9	3.180%	2018	18.0
Yorkshire Water Services Bradford Finance Limited	9.4	3.180%	2019	9.0
Yorkshire Water Services Bradford Finance Limited	72.3	3.770%	2021	67.4
Yorkshire Water Services Bradford Finance Limited	25.1	3.770%	2022	23.4
Yorkshire Water Services Bradford Finance Limited	94.3	3.870%	2023	86.9
Yorkshire Water Services Bradford Finance Limited	18.8	3.870%	2024	17.4
Yorkshire Water Services Bradford Finance Limited	47.2	5.070%	2022	44.0
Yorkshire Water Services Bradford Finance Limited	250.0	3.625%	2029	227.9
Yorkshire Water Services Bradford Finance Limited	90.0	4.968%	2033	86.3
Yorkshire Water Services Bradford Finance Limited	33.8	5.875%	2033	27.3
Total fixed				**2,442.0**
Index linked				
Yorkshire Water Services Finance Limited	0.1	3.048%	2033	(1.1)
Yorkshire Water Services Odsal Finance Limited	127.8	3.306%	2033	147.8
Yorkshire Water Services Finance Limited	65.0	1.823%	2050	79.8
Yorkshire Water Services Finance Limited	125.0	1.462%	2051	158.1
Yorkshire Water Services Finance Limited	85.0	1.758%	2054	104.5
Yorkshire Water Services Finance Limited	125.0	1.460%	2056	158.0
Yorkshire Water Services Finance Limited	100.0	1.709%	2058	122.8
Yorkshire Water Services Bradford Finance Limited	175.0	2.718%	2039	209.0
Yorkshire Water Services Bradford Finance Limited	85.0	2.718%	2039	113.1
Yorkshire Water Services Bradford Finance Limited	50.0	2.160%	2041	52.8
Yorkshire Water Services Bradford Finance Limited	50.0	1.803%	2042	52.4
Total index linked				**1,197.2**

19. Pension commitments

The company sponsors a UK pension scheme, the Kelda Group Pension Plan (KGPP). The KGPP has a umber of benefit categories providing benefits on a defined benefit basis and one category providing benefits on 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 March 2014.

The most recent formalised actuarial valuation of the KGPP was carried out as at 31 March 2012 when the market value of assets was £901.0m. The company participates in the Group multi-employer scheme, such that the company's pension scheme's assets and liabilities are included with those of other subsidiary companies of Kelda Holdings Limited. The company is unable to identify its share of the underlying assets and liabilities of the KGPP as the scheme's members are not unitised by company. The company therefore accounts for pension costs on a contribution basis.

The company's total pension charge for the year was £24.5m (2013: £28.5m). At 31 March 2014, the company had outstanding contributions of £1.1m (2013: £1.1m). An accrual for these outstanding contributions has been included in the company's financial statements.

A summary of the market value of the scheme assets as disclosed in the consolidated Kelda Eurobond Co Limited financial statements as at 31 March 2014 is as follows:

	Market value 2014 £m	Expected long-term rate of return 2014 %	Market value 2013 £m	Expected long-term rate of return 2013 %
Fair value of scheme assets				
Equities	242.9	n/a	438.4	n/a
Bonds	325.3	n/a	400.0	n/a
Property	82.4	n/a	76.3	n/a
Other	417.7	n/a	106.2	n/a
Total value of assets	**1,068.3**		**1,020.9**	
Present value of scheme liabilities	(1,161.3)		(1,179.3)	
Net pension liability	**(93.0)**		**(158.4)**	

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Human Resource Consulting, on the basis of annual valuations using the projected unit credit method and use the following assumptions:

	2014 %	2013 %
Inflation	3.30	3.30
Rate of increase in salaries	4.40	4.30
Rate of increase to pensions in payment and deferred pensions	3.30	3.30
Discount rate for scheme liabilities	4.55	4.40
	(in years)	**(in years)**
Life expectancy of 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

20. Ultimate parent undertaking

The company's immediate parent company is Yorkshire Water Services Holdings Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey but wholly and exclusively resident for tax in the UK.

Kelda Finance (No. 1) Limited, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate these financial statements. Kelda Holdings Limited, a company registered in Jersey, is the largest group to consolidate these financial statements.

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

21. Related party transactions

The company is exempt under the terms of FRS 8 'Related party transactions' from disclosing related party transactions with entities that are part of the Kelda Holdings Limited group.

During the year there were no transactions or outstanding balances with other related parties.

22. Segmental information

For statutory purposes, the directors consider there to be only one business segment, being the provision of water and sewerage services in the United Kingdom.

23. Share-based payments

Share options

In prior years the ultimate parent company, Kelda Group Limited (formerly plc), operated a savings related share option scheme under which options were granted to employees and provided for at an exercise price equal to the daily average market price on the date of grant less 20%. The options vested if the employee remained in service for the full duration of the options scheme (either 3 or 5 years).

In 2008, the scheme was closed following the acquisition of Kelda Group plc by Saltaire Water Limited. Certain schemes have been allowed to continue until the planned maturity of three or five years from grant date with members choosing whether to continue to contribute.

	Options	Weighted average exercise price 2014 £	Options	Weighted average exercise price 2013 £
Outstanding at the beginning of the year	–	–	6,044	7.41
Lapsed during the year	–	–	–	–
Exercised during the year	–	–	(6,044)	7.41
Outstanding at the end of the year	**–**	**–**	**–**	**–**

The weighted average share option price at the date of exercise for share options exersised during the year ended 31 March 2013 was £15.90. No share options were exercised in 2013/14. There were no options outstanding at 31 March 2014 or 31 March 2013.

Independent auditors' report to the members of Yorkshire Water Services Limited

Report on the 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 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 financial statements, which are prepared by Yorkshire Water Services Limited, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account and statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the company financial statements as a whole to be £17.8m, being 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is the primary measure of performance used by the ultimate owners of the company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Company is structured into three main divisions (asset delivery, production and customer service and networks), but is a single reporting unit for the purposes of the financial statements. In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 43 to 46.

Area of focus	How the scope of our audit addressed the area of focus
Valuation of index linked swaps The company holds index linked swaps which had a nominal value of £1,289m at 31 March 2014. Although these swaps are held off balance sheet in accordance with United Kingdom Generally Accepted Accounting Practice, a provision has been recognised for the shortfall of £154.2m in the effectiveness of the hedge between the levels of floating rate debt (current and committed) and the mark-to-market values of the swaps. The existing novation and bullet provisions are sufficient to provide for this shortfall. The novation provision of £263m is being amortised on a straight line basis over the average life of the swaps (38 years) and the bullet provision of £108m, payable upon expiry of the swap contracts, is adjusted annually for forecast levels of RPI over the term. We focused on this area because of the magnitude of the provision, which fluctuates with changes to the mark-to-market values of the swaps and the judgement taken by management in assessing the level of onerous contracts (Refer also to note 14 to the financial statements.)	We tested the mark-to-market valuation of the index linked swaps by agreeing to counterparty confirmations and performing an independent reasonableness check on the valuations. We have assessed the adequacy of the provision held by recalculating the novation and bullet provisions and comparing to the valuation of the swaps.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We focused on the existence of the revenue transactions and also the timing of the recognition.	We evaluated the relevant IT systems and tested the internal controls over revenue recognition and performed substantive testing over the revenue transactions. We also tested journal entries posted to revenue accounts to identify unusual or irregular items and assessed whether the revenue recognition policies applied were in compliance with United Kingdom Generally Accepted Accounting Practice.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the company and interviewed senior management and the internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements and tested journal entries using a risk based approach.

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, 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.

Corporate governance statement

The directors have chosen voluntarily to comply with the UK Corporate Governance Code (the Code) as if the company were a premium listed company. On page 67 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy. On pages 43 to 46 as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 67, 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.

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

Leeds

14 July 2014

Regulatory accounting information 2014

Contents

Explanatory note

Pages 94 to 115 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Water Services Regulation Authority (Ofwat).

Historical cost information

Historical cost profit & loss account

For the year ended 31 March 2014

	Appointed 2014 £m	Non-appointed 2014 £m	Total 2014 £m	Appointed 2013 £m	Non-appointed 2013 £m	Total 2013 £m
Turnover	973.5	10.7	984.2	927.0	9.2	936.2
Operating costs	(386.7)	(8.1)	(394.8)	(367.0)	(7.4)	(374.4)
Infrastructure renewals charge	(90.6)	–	(90.6)	(64.3)	–	(64.3)
Historical cost depreciation	(176.6)	(0.1)	(176.7)	(170.2)	–	(170.2)
Operating income	5.9	–	5.9	1.8	–	1.8
Operating profit	**325.5**	**2.5**	**328.0**	**327.3**	**1.8**	**329.1**
Other income	2.2	–	2.2	2.4	–	2.4
Net interest payable	(188.0)	–	(188.0)	(145.3)	–	(145.3)
Profit on ordinary activities before taxation	**139.7**	**2.5**	**142.2**	**184.4**	**1.8**	**186.2**
Taxation – current	11.8	(0.5)	11.3	4.3	(0.4)	3.9
Taxation – deferrred	49.6	–	49.6	58.4	–	58.4
Profit on ordinary activities after taxation	**201.1**	**2.0**	**203.1**	**247.1**	**1.4**	**248.5**
Dividends	(165.5)	–	(165.5)	(256.6)	–	(256.6)
Retained profit for the year / (sustained loss)	**35.6**	**2.0**	**37.6**	**(9.5)**	**1.4**	**(8.1)**

The accounting policies set out on pages 99 to 102 of the statutory financial statements of Yorkshire Water Services Limited (Yorkshire Water) apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets and the investment in The York Waterworks Limited (note 1 on page 99).

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the re-valuation of certain tangible fixed assets.

Statement of total recognised gains and losses for the appointed business

For the year ended 31 March 2014

	2014 £m	2013 £m
Profit on ordinary activities after taxation	201.1	247.1
Surplus on revaluation	17.2	–
Total recognised gain for the financial year	**218.3**	**247.1**

Historical cost balance sheet

As at 31 March 2014

	Appointed 2014 £m	Non-appointed 2014 £m	Total 2014 £m	Appointed 2013 £m	Non-appointed 2013 £m	Total 2013 £m
Fixed assets	6,399.6	3.1	6,402.7	6,271.8	3.4	6,275.2
Tangible assets	1,273.2	–	1,273.2	1,281.3	–	1,281.3
Investments – loan to a Group company	4.8	–	4.8	5.7	–	5.7
Investments – other						
Total fixed assets	**7,677.6**	**3.1**	**7,680.7**	**7,558.8**	**3.4**	**7,562.2**
Infrastructure renewals prepayment	–	–	–	4.4	–	4.4
Other current assets	211.8	10.9	222.7	202.8	8.2	211.0
Creditors: amounts falling due within one year						
Borrowings	(58.5)	–	(58.5)	(53.8)	–	(53.8)
Other creditors	(294.1)	(0.8)	(294.9)	(314.1)	(0.2)	(314.3)
	(352.6)	**(0.8)**	**(353.4)**	**(367.9)**	**(0.2)**	**(368.1)**
Infrastructure renewals accrual	(32.8)	–	(32.8)	–	–	–
Net current (liabilities)/assets	(173.6)	10.1	(163.5)	(160.7)	8.0	(152.7)
Total assets less current liabilities	**7,504.0**	**13.2**	**7,517.2**	**7,398.1**	**11.4**	**7,409.5**
Creditors: amounts falling due after more than one year						
Borrowings	(4,530.4)	–	(4,530.4)	(4,410.9)	–	(4,410.9)
Other creditors	(44.3)	–	(44.3)	(50.9)	–	(50.9)
	(4,574.7)	**–**	**(4,574.7)**	**(4,461.8)**	**–**	**(4,461.8)**
Provisions for liabilities	(378.2)	(2.8)	(381.0)	(438.1)	(3.0)	(441.1)
Net assets employed	**2,551.1**	**10.4**	**2,561.5**	**2,498.2**	**8.4**	**2,506.6**
Capital and reserves	**2,551.1**	**10.4**	**2,561.5**	**2,498.2**	**8.4**	**2,506.6**

The regulatory financial statements on pages 94 to 117 were approved by a duly authorised committee of the board of directors on 14 July 2014 and signed on their behalf by:

Richard Flint
Chief Executive

14 July 2014

Reconciliation between statutory accounts and regulatory accounts

As at 31 March 2014

	Statutory UK GAAP £m	Regulatory £m	
Profit and loss account			
Turnover	984.2	984.2	No difference.
Operating profit	330.2	328.0	£2.2m of profit from asset sales is included within operating profit in the statutory accounts.
Balance sheet			
Tangible fixed assets	6,369.9	6,402.7	The difference of £32.8m is attributable to the infrastructure renewals accrual which is excluded from the fixed asset net book value and shown separately within the regulatory accounts in accordance with Regulatory Accounting Guideline 3.07.
Provisions for liabilities	327.4	381.0	The difference of £53.6m is attributable to deferred grants and contributions which is reclassified from creditors and included within provisions in line with Regulatory Accounting Guideline 4.04.

Current cost information

Current cost profit and loss account for the appointed business

As at 31 March 2014

	Water 2014 £m	Sewerage 2014 £m	Total 2014 £m	Water 2013 £m	Sewerage 2013 £m	Total 2013 £m
Turnover						
Unmeasured – household	208.5	251.0	459.5	215.2	250.8	466.0
Unmeasured – non-household	1.4	2.7	4.1	1.4	2.5	3.9
Measured – household	125.0	152.8	277.8	110.5	131.5	242.0
Measured – non-household	80.9	73.6	154.5	76.6	68.6	145.2
Trade effluent	–	9.1	9.1	–	8.9	8.9
Bulk supplies	0.2	–	0.2	0.1	–	0.1
Other third party services (incl non-potable water)	0.3	0.8	1.1	0.1	0.7	0.8
Other sources	34.8	32.4	67.2	30.5	29.6	60.1
Total turnover	451.1	522.4	973.5	434.4	492.6	927.0
Current cost operating costs – wholesale (note 5)	(294.0)	(386.2)	(680.2)	(272.4)	(331.8)	(604.2)
Current cost operating costs – retail (note 5)	(28.7)	(33.3)	(62.0)	(29.6)	(33.5)	(63.1)
Operating income	2.8	1.3	4.1	1.0	0.7	1.7
Working capital adjustment	0.8	1.0	1.8	1.1	1.2	2.3
Current cost operating profit	132.0	105.2	237.2	134.5	129.2	263.7
Other income			2.2			2.4
Net interest payable			(188.0)			(145.3)
Financing adjustment			16.2			18.0
Current cost profit on ordinary activities before taxation			67.6			138.8
Net revenue movement out of tariff basket	0.9	(0.2)	0.7	(0.4)	0.7	0.3
Back-billing amount identified	–	0.1	0.1	1.5	1.3	2.8

Current cost cash flow statement for the appointed business

For the year ended 31 March 2014

	2014 £m	2013 £m
Current cost operating profit	**237.2**	263.7
Working capital adjustment	**(1.8)**	(2.3)
Movement in working capital	**10.6**	18.4
Receipts from other income	**2.2**	2.4
Current cost depreciation	**266.0**	237.1
Current cost profit on sale of fixed assets	**(4.1)**	(1.8)
Infrastructure renewals charge	**90.7**	64.3
Increase/(decrease) in provisions	**0.1**	(0.1)
Net cash flow from operating activities	**600.9**	**581.7**
Returns on investments and servicing of finance	**(141.6)**	(135.5)
Tax received	**2.1**	2.7
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	**(338.3)**	(338.5)
Receipt of grants and contributions	**11.9**	12.0
Infrastructure renewals expenditure	**(53.4)**	(62.7)
Disposal of fixed assets	**7.1**	2.3
Movement on long term loans to Group companies	**124.0**	204.4
Net cash outflow from investing activities	**(248.7)**	**(182.5)**
Equity dividends paid	**(165.5)**	(256.7)
Net cashflow from management of liquid resources	**(10.4)**	3.7
Net cash inflow before financing	**36.8**	**13.4**
Net cash (outflow) / inflow from financing	**(42.3)**	10.0
(Decrease)/increase in cash	**(5.5)**	**23.4**

Notes to the regulatory accounting information

1. Accounting policies

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Limited (Yorkshire Water) in accordance with guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory financial statements as shown on page 70 to 72, except as set out below.

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the appointed business are separately allocated and identified as 'non-appointed'. Indirect costs related to non-appointed activities are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

This Regulatory Accounting Information has been drawn up in accordance with the accounting methodology statement which is published on the company's website at: www.yorkshirewater.com/about-us/our-performance/reports-and-accounts.aspx

Infrastructure assets

As noted on page 94, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals is shown separately in the current cost balance sheet.

Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

The ownership of, and responsibility for, certain private sewers in Yorkshire Water's region were transferred to the company on 1 October 2011. To meet the requirements of RAG 1.04 these assets have been included in fixed asset additions at their modern equivalent asset value (MEA) with a corresponding credit to third party contributions. The value included is based on data from a report completed by UK Water Industry Research (UKWIR) in 2007 which estimated the length of private sewers, and the number of chambers and other associated assets, to be adopted in each region in England and Wales as part of the private sewers transfer. UKWIR used average lengths of each type of drain or sewer, with different lengths applied depending on the age and type of property. To calculate the MEA cost at October 2011, the transferred sewers were valued at current construction unit costs for similar replacement activities on public sewers. Future (actual) third party contributions are treated like grants and carried forward (in real terms) as deferred income deducted in net operating assets. Consequently for example, adopted assets are brought in as an asset in the year of adoption at their MEA cost with a corresponding credit to third party contributions.

The modern equivalent asset values (MEA) arising from the last Periodic Review (PR09) are incorporated in the 2013/14 Regulatory Accounting Information.

The revaluation of historical cost fixed assets does not affect the current cost accounting information.

Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

Other fixed assets
All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Surplus land
Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Instrument of Appointment.

Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as deferred income.

Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Working capital adjustment
This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.

Financing adjustment
This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and those already linked to RPI.

Investment in York WaterWorks

The intangible assets accounting policy on page 71 and note 6 of the statutory financial statements of Yorkshire Water outline the treatment of the transfer of the trade and net assets of The York WaterWorks Ltd (YWW) to Yorkshire Water in 2000.

Turnover recognition

Turnover represents the fair value of income receivable from the regulated activities of the business for water and sewerage services in the year exclusive of value added tax. Turnover is recognised in the period in which it is earned in accordance with FRS 5 'Reporting the substance of transactions'.

Appointed turnover for 2014 of £973.5m is £44.6m more than the final determination target of £928.9m. The reasons for this over performance against the final determination are set out below.

	2014 £m
Final determination projection	**928.9**
Impact of higher inflation	63.9
Final determination adjusted for inflation movement	**992.8**
New properties	(2.7)
Domestic meter optants	1.7
Consumption changes	(15.0)
Other	(3.3)
Actual reported appointed turnover	**973.5**

Turnover for 2013 included a measured income accrual of £52.9m. The value of billing recognised in 2014 for consumption in the prior year was £55.4m. This has resulted in an increase in the current year's turnover due to the underestimation of the prior year's turnover of £2.5m.

The measured income accrual is an estimation of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. The measured income accrual is recognised within turnover.

Where an invoice has been raised in advance this bill value is not recognised until it is due. If a customer payment is made but the service has not been provided in the year this will be treated as a payment in advance and recognised in creditors.

Charges on income arising from court and solicitors' fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover.

It is company policy to regularly comment on revenue movements through the financial and operating reporting processes.

There is no difference between statutory and regulatory policy on revenue recognition. There is no turnover recognition for unoccupied properties. Yorkshire Water do not bill known unoccupied properties. If a bill is raised and it is subsequently identified that the property is unoccupied then the bill is cancelled and removed from revenue.

Water and sewerage charges fall into the following three categories:

- charges which are payable in full;
- charges which are payable in part; and
- not chargeable (void properties).

The circumstances in which each of the above applies are set out below.

Charges payable in full:
Charges are payable in full in the following circumstances:

- occupied and benefiting from supply; and
- unoccupied and benefitting from supply, these include properties where significant renovation, redecoration or building work is being undertaken and where there is any known regular use of water.

Exceptions to this, where water and sewerage charges are not payable, include where the customer is in a care home, long-term hospitalisation, in prison, overseas long term or in the event of the death of the customer.

Charges payable in part:
The following charges only are payable in certain circumstances:

- metered standing charges, payable on unoccupied, metered properties which are still connected;
- surface water charge;
- sewerage unmetered tariff, payable on unmetered, occupied properties where the water supply is disconnected but sewerage connection is still provided; and
- surface water and highway drainage, payable on occupied properties where the water supply is disconnected.

Not chargeable:
Properties which are unoccupied, not benefitting from supply or disconnected are not chargeable for water and sewerage therefore no billing is raised and no turnover recognised in respect of these properties.

Occupied properties

The occupier is any person who owns a premises or who has agreed with us to pay water and sewerage services in respect of the premises. The property management process is followed to identify whether the property is occupied or not and if occupied to identify the chargeable person and raise a bill.

The property management process may comprise customer contacts, mailings, meter readings, residency checks using credit reference agencies and physical inspections.

Yorkshire Water adopts a risk based approach to its voids in order to get right balance between early pro-active work on high risk areas.

Unoccupied properties

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- a property is not benefitting from a water supply;
- a new property has been connected but is empty and not benefitting from supply;
- the company has been informed that the customer has left the property, it is not benefitting from supply and not expected to be reoccupied immediately;
- it has been disconnected following a customer request;
- the identity of the customer is unknown; and
- the company has been informed that the customer is in a care home, long-term hospitalisation, prison or overseas long-term.

If the property management process confirms that the property is unoccupied, the property will be declared void.

New properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover.

If the developer is no longer responsible for the property and no new occupier has been identified the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Dividend policy

The dividend policy is described on page 64 within the Director's Report.

Capitalisation policy

Costs are capitalised following the company's capitalisation policy which states that capital expenditure includes:

- acquisition of land and buildings;
- expenditure of more than £3,000 on the construction, provision, purchase, replacement or improvement of other fixed assets or their major renewal. Where individual items each costing less than £3,000 are part of an approved project falling within this definition then the whole of the expenditure is to be capitalised, e.g. Initial furniture and equipment for newly constructed premises; and
- salaries, salaries on cost and associated costs of staff employed on capital works.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Any other costs are treated as operating expenditure.

Directly attributable costs are:

- the labour costs of Group employees arising directly from construction or acquisition of the tangible fixed asset; and
- the incremental costs to the Group that would have been avoided only if the tangible fixed asset had not been constructed or acquired.

Administration and other general overhead costs are excluded from the cost of a tangible fixed asset.

Bad debt

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted.
- where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution.
- where the customer does not have any assets/has insufficient assets on which to levy execution;
- where the age and/or value of the debt makes it uneconomic to pursue – all debts of less than £65 are written off.
- where county court proceedings and attempts to recover the debt by debt collection agencies have proved unsuccessful; and
- where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

There has been no change in this policy between years.

Bad and doubtful debts provisions policy

The bad debt provision is charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. It is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. These recovery rates take into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system. For unmeasured (direct billing) customers, all debt greater than 3 years old is fully provided for. For measured customers, all debt greater than 4 years old is fully provided for.

Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results.

There has been no change in this policy between years.

2. Appointed and non-appointed business

The historical cost accounting information shows separate figures for Appointed and Non-Appointed Business.

The Appointed Business is defined to be the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The Non-Appointed Business encompasses those activities for which Yorkshire Water is not a monopoly supplier or the activity involves the optional use of an asset owned by the Appointed Business.

3. Disclosure of transactions with associates

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the Appointed Business are separately allocated and identified as 'Non-Appointed'. Indirect costs, relating to Non-Appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Borrowings or sums lent

Kelda Holdco Limited
A long term loan was advanced by Yorkshire Water to Kelda Holdco Limited during 2008/09 to reflect the market value of certain index linked swaps novated from Kelda Holdco Limited to Yorkshire Water at that point in time. Balances at 1 April 2013 and 31 March 2014 were £272.3m and £264.2m respectively. Interest is payable at current market rates.

In addition Yorkshire Water have made further loan advances to Kelda Holdco Limited to enable the refinancing of debt in Kelda Holdco Limited. The balance of these loans at 31 March 2014 was £1,009.0m (2013: £1,009.0m). Interest is payable on these loans at current market rates.

Yorkshire Water Services Finance Limited (YWSFL)
On 17 April 2000, £150.0m was lent at a fixed rate of 6.625% repayable in 2031, and on 16 November 2001 a further £90.0m was lent at 6.625% repayable in 2031. On 3 July 2008 Yorkshire Water Services Finance Limited (YWSF), a subsidiary of the company, became principal debtor under the bonds which are unconditionally and irrevocably guaranteed by Yorkshire Water. As a result, the loans from Kelda Group Limited were transferred to YWSF.

On 24 July 2009, Yorkshire Water implemented a whole business securitisation (WBS). Post the implementation of the WBS, Yorkshire Water Services Finance Limited will remain the issuer in respect of the existing bonds on-lent to Yorkshire Water, but will not issue further bonds in the future.

The table below sets out the amounts outstanding on loans from YWSF:

Issue Date	Nominal £m	Coupon	Maturity	Liability @ 31/03/2014 £m
Fixed Rate				
07/04/2000	240.0	6.625%	2031	240.6
21/02/2003	200.0	5.375%	2023	197.5
29/05/2007	200.0	5.500%	2037	195.1
29/05/2007	150.0	5.500%	2027	148.9
Index Linked				
21/02/2003	100.0	3.048%	2033	140.9
27/11/2006	125.0	1.462%	2051	158.2
27/11/2006	125.0	1.460%	2056	158.0
01/06/2007	85.0	1.758%	2054	104.5
11/06/2007	100.0	1.709%	2058	122.8
11/06/2007	65.0	1.823%	2050	79.8
Total loan with YWSFL	**1,390.0**			**1,546.3**

Yorkshire Water Services Odsal Finance Limited (YWSOFL)

As stated above, during the year ended 31 March 2010 Yorkshire Water implemented a WBS. Part of this process involved certain bonds initially issued by YWSFL being exchanged for new bonds issued by a fellow subsidiary YWSOFL. These exchange bonds were issued on different terms to the existing bonds.

In order to fund the change in coupon payable and differences in par values post the bond exchange, Yorkshire Water entered into a series of loans with YWSOFL:

- deep discounting loans structured such that their redemption value will be discharged by the difference between the par value paid by YWSFL in respect of the old bonds and the par value paid by the YWSOFL in respect of the new bonds; and
- amortising loans structured such that the regular payments of principal and interest equate to the difference between the interest received from YWSFL on the old bonds and the amount payable by the YWSOFL on the new bonds.

The balances outstanding as at 31 March 2014, regarding these deep discounting and amortising loans, are shown in the table below.

	£m
2010 to 2023 Exchange Bonds	30.2
2023 to 2023 Exchange Bonds	3.1
2027 to 2027 Exchange Bonds	5.1
2031 to 2031 Exchange Bonds	15.5
2033 to 2033 Exchange Bonds	11.4
Total	**65.3**

Yorkshire Water Services Bradford Finance Limited (YWSBFL)

During 2013/14 YWSBFL raised £123.8m of new fixed rate debt as shown by the table below.
The proceeds (net of costs and expenses where applicable) were on-lent by YWSBFL to Yorkshire Water.
The amounts outstanding as at 31 March 2014 are shown in the table below.

Issue Date	Nominal £m	Nominal USD $m	Nominal ASD $m	Coupon	Maturity	Liability @ 31/03/2014 £m
Fixed Rate						
24/07/2009	275.0	n/a	n/a	6.000%	2019	273.6
24/07/2009	200.0	n/a	n/a	6.375%	2039	198.3
23/04/2010	100.0	n/a	n/a	6.375%	2039	107.0
23/04/2010	450.0	n/a	n/a	6.000%	2017	447.9
13/12/2011	18.9	30.0	n/a	3.180%	2018	18.8
05/01/2012	9.4	15.0	n/a	3.180%	2019	9.4
13/12/2011	72.3	115.0	n/a	3.770%	2021	72.0
05/01/2012	25.1	40.0	n/a	3.770%	2022	25.0
13/12/2011	94.3	150.0	n/a	3.870%	2023	93.8
05/01/2012	18.8	30.0	n/a	3.870%	2024	18.8
05/01/2012	47.2	75.0	n/a	5.070%	2022	46.9
01/08/2012	250.0	n/a	n/a	3.625%	2029	246.8
13/06/2013	90.0	n/a	n/a	4.968%	2033	89.3
26/04/2013	33.8	n/a	50.0	5.875%	2023	33.7
Index Linked						
24/07/2009	175.0	n/a	n/a	2.718%	2039	209.0
23/04/2010	85.0	n/a	n/a	2.718%	2039	113.2
13/12/2011	50.0	n/a	n/a	2.160%	2041	52.9
22/05/2012	50.0	n/a	n/a	1.803%	2042	52.4
Total Loan with YWSBFL						**2,108.8**

No other material sums were lent to or borrowed from other associated companies.

Dividends paid to associated undertakings

Amounts paid to the parent company and the underlying dividend policy, are disclosed in the Directors' Report on page 64 of the statutory financial statements of Yorkshire Water.

Guarantees/securities

Until August 2008, the bankers for Kelda Group Limited and subsidiaries current accounts provided pooling arrangements for all accounts whereby debit and credit balances were pooled with interest charged on the net Group balance. Arrangements changed on 11 August 2008 and now Yorkshire Water has pooling arrangements only with YWSFL. Debit and credit balances are pooled with interest charged on the net Group balance.

This facility is subject to provision of cross guarantees by each company within each pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank.

This is provided that the aggregate of the cleared debit balances, less the aggregate of the cleared credit balances, i.e. the net amount must not exceed £10.0m. In addition, the aggregate of the cleared debit balances on the Group accounts must not exceed £15.0m.

Transfer of assets and liabilities

During the course of the year land and buildings were sold to Group companies at market value. Total sale proceeds were £3.5m (2013: £1.9m).

Supply of service

Details of all transactions between the appointee and its associated companies during the year must be disclosed and if any single transaction exceeds 0.5% of turnover of the appointed business (£4.9m for 2014) it should not be aggregated.

Services received by regulated business	Associate company	Turnover of associate £m	Terms of supply	Value £m
Corporate charges	Kelda Group Limited	7.0	Cost allocation	4.8
Customer services	Loop Customer Management Limited	28.4	Cost allocation	23.9

Yorkshire Water provides IT, facilities charges, legal and a variety of common services to companies within the Group. These services total £3.5m and are provided at cost.

The Directors declare that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

4. Link between directors' pay and standards of performance

The link between directors' pay and standards of performance are discussed in the Directors' Remuneration Report on pages 48 to 61.

5. Analysis of operating costs

For the year ended 31 March 2014

Water – wholesale

	Resources £m	Raw water Distribution £m	Treatment £m	Treated distribution £m	Water sub total £m
Operating expenditure					
Power	3.0	4.9	4.8	12.2	**24.9**
Income treated as negative expenditure	–	–	(0.2)	(0.3)	**(0.5)**
Service charges	5.6	–	0.1	–	**5.7**
Bulk supply imports	3.9	–	–	–	**3.9**
Other operating expenditure	4.9	4.7	29.2	51.7	**90.5**
Local authority rates	0.8	7.5	10.0	19.0	**37.3**
Total operating expenditure excluding third party services	**18.2**	**17.1**	**43.9**	**82.6**	**161.8**
Capital maintenance					
Infrastructure renewals charge	–	3.0	–	45.3	**48.3**
Current cost depreciation	4.7	4.3	22.3	67.6	**98.9**
Recharges from other business units	0.4	1.3	3.1	6.0	**10.8**
Recharges to other business units	–	–	(0.3)	(26.2)	**(26.5)**
Amortisation of deferred credits	(1.2)	–	–	(0.1)	**(1.3)**
Amortisation of intangible assets	–	–	0.2	0.7	**0.9**
Total capital maintenance excluding third party services	**3.9**	**8.6**	**25.3**	**93.3**	**131.1**
Third party services					
Operating expenditure	–	–	–	1.1	**1.1**
Total operating costs	**22.1**	**25.7**	**69.2**	**177.0**	**294.0**

Sewerage – wholesale

	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub total £m	Total water and sewerage £m
Operating expenditure						
Power	3.3	21.0	8.5	–	32.8	57.7
Income treated as negative expenditure	–	–	(1.4)	–	(1.4)	(1.9)
Service charges	1.4	2.9	–	0.2	4.5	10.2
Bulk supply imports	–	–	–	–	–	3.9
Other operating expenditure	38.0	34.4	29.9	9.4	111.7	202.2
Local authority rates	0.2	15.8	2.8	–	18.8	56.1
Total operating expenditure excluding third party services	**42.9**	**74.1**	**39.8**	**9.6**	**166.4**	**328.2**
Capital maintenance						
Infrastructure renewals charge	42.3	–	–	–	42.3	90.6
Current cost depreciation	49.7	91.3	22.8	–	163.8	262.7
Recharges from other business units	8.1	4.5	3.0	0.1	15.7	26.5
Recharges to other business units	(0.6)	–	–	–	(0.6)	(27.1)
Amortisation of deferred credits	(0.1)	(1.3)	–	–	(1.4)	(2.7)
Amortisation of intangible assets	–	–	–	–	–	0.9
Total capital maintenance excluding third party services	**99.4**	**94.5**	**25.8**	**0.1**	**219.8**	**350.9**
Third party services						
Operating expenditure	–	–	–	–	–	1.1
Total operating costs	**142.3**	**168.6**	**65.6**	**9.7**	**386.2**	**680.2**

Water – retail

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	18.3	1.6	**19.9**
Debt management	3.0	0.8	**3.8**
Doubtful debts	16.9	1.5	**18.4**
Meter reading	2.1	0.3	**2.4**
Services to developers	–	0.3	**0.3**
Other operating expenditure	10.0	1.5	**11.5**
Total operating expenditure excluding third party services	**50.3**	**6.0**	**56.3**
Third party services operating expenditure	–	–	–
Total operating expenditure	**50.3**	**6.0**	**56.3**
Capital maintenance			
Current cost depreciation	5.1	–	**5.1**
Recharges from other business units	4.8	0.8	**5.6**
Recharges to other business units	(5.0)	–	**(5.0)**
Total capital maintenance	**4.9**	**0.8**	**5.7**
Total operating costs	**55.2**	**6.8**	**62.0**
Debt written off	**15.5**	**1.5**	**17.0**

The methodology used to allocate operating costs between service areas is published on the company's website at: www.yorkshirewater.com/about-us/our-performance/reports-and-accounts.aspx

This document also contains a commentary explaining the material operating cost movements between the current year and the prior year.

6. Current cost analysis of fixed assets

As at 31 March 2014

Water

	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub total £m
Non-infrastructure assets Gross replacement cost					
At 1 April 2013	325.0	231.1	1,016.3	1,750.5	**3,322.9**
Reclassification adjustment	1.2	0.9	3.8	6.6	**12.5**
RPI adjustment	8.0	5.7	24.9	42.9	**81.5**
Disposals	(2.0)	–	(2.4)	(20.5)	**(24.9)**
Additions	5.5	1.8	18.4	52.8	**78.5**
At 31 March 2014	**337.7**	**239.5**	**1,061.0**	**1,832.3**	**3,470.5**
Depreciation					
At 1 April 2013	68.7	65.1	702.4	991.6	**1,827.8**
Re-classification adjustment	(0.1)	(0.1)	(1.0)	(1.4)	**(2.6)**
RPI adjustment	1.7	1.6	17.2	24.3	**44.8**
Disposals	(0.1)	–	(2.4)	(19.6)	**(22.1)**
Charge for year	4.7	4.3	22.3	67.6	**98.9**
At 31 March 2014	**74.9**	**70.9**	**738.5**	**1,062.5**	**1,946.8**
Net book amount at 31 March 2014	**262.8**	**168.6**	**322.5**	**769.8**	**1,523.7**
Net book amount at 1 April 2013	256.3	166.0	313.9	758.9	1,495.1
Infrastructure assets Gross replacement cost					
At 1 April 2013	3,995.4	894.0	5.7	13,463.0	**18,358.1**
RPI adjustment	97.9	21.9	0.1	329.8	**449.7**
Additions	–	0.8	0.1	4.5	**5.4**
At 31 March 2014	**4,093.3**	**916.7**	**5.9**	**13,797.3**	**18,813.2**

Sewerage

	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub total £m	Total water and sewerage £m
Non-infrastructure assets Gross replacement cost						
At 1 April 2013	1,005.9	3,728.2	792.5	19.1	**5,545.7**	**8,868.6**
Reclassification adjustment	3.8	14.0	3.0	0.1	**20.9**	**33.4**
RPI adjustment	24.6	91.3	19.4	0.5	**135.8**	**217.3**
Disposals	(57.7)	(19.6)	(0.3)	–	**(77.6)**	**(102.5)**
Additions	16.1	82.2	36.6	–	**134.9**	**213.4**
At 31 March 2014	**992.7**	**3,896.1**	**851.2**	**19.7**	**5,759.7**	**9,230.2**
Depreciation						
At 1 April 2013	659.5	2,311.5	541.7	18.8	**3,531.5**	**5,359.3**
Re-classification adjustment	(1.0)	(3.4)	(0.9)	–	**(5.3)**	**(7.9)**
RPI adjustment	16.2	56.6	13.3	0.5	**86.6**	**131.4**
Disposals	(57.7)	(19.3)	(0.3)	–	**(77.3)**	**(99.4)**
Charge for year	49.7	91.3	22.8	–	**163.8**	**262.7**
At 31 March 2014	**666.7**	**2,436.7**	**576.6**	**19.3**	**3,699.3**	**5,646.1**
Net book amount at 31 March 2014	**326.0**	**1,459.4**	**274.6**	**0.4**	**2,060.4**	**3,584.1**
Net book amount at 1 April 2013	346.4	1,416.7	250.8	0.3	2,014.2	3,509.3
Infrastructure assets Gross replacement cost						
At 1 April 2013	27,569.2	6.1	2.0	0.1	**27,577.4**	**45,935.5**
RPI adjustment	675.4	0.1	–	–	**675.5**	**1,125.2**
Additions	68.1†	17.9	–	–	**86.0**	**91.4**
At 31 March 2014	**28,312.7**	**24.1**	**2.0**	**0.1**	**28,338.9**	**47,152.1**

† Additions of £68.1m in the table above includes the fair value of adopted assets of £7.9m which were acquired by the company at nil cost.

Retail business

	Household £m	Non-household £m	Total £m
Non-infrastructure assets Gross replacement cost			
At 1 April 2013	93.3	9.3	102.6
Reclassification adjustment	(27.3)	(6.1)	(33.4)
RPI adjustment	2.3	0.2	2.5
Additions	1.1	0.2	1.3
At 31 March 2014	**69.4**	**3.6**	**73.0**
Depreciation			
At 1 April 2013	31.8	3.8	35.6
Re-classification adjustment	10.5	(2.6)	7.9
RPI adjustment	0.8	0.1	0.9
Charge for year	5.1	–	5.1
At 31 March 2014	**48.2**	**1.3**	**49.5**
Net book amount at 31 March 2014	**21.2**	**2.3**	**23.5**
Net book amount at 1 April 2013	61.5	5.5	67.0

The methodology used to allocate fixed assets between service areas is published on the company's website at: www.yorkshirewater.com/about-us/our-performance/reports-and-accounts.aspx

The commentary includes information on the reclassification adjustment.

7. Analysis of capital expenditure, grants and land sales

For the year ended 31 March 2014

	Gross 2014 £m	Grants and contributions 2014 £m	Net 2014 £m	Gross 2013 £m	Grants and contributions 2013 £m	Net 2013 £m
Capital expenditure – water						
Base						
Infrastructure renewals expenditure	29.4	(2.9)	**26.5**	44.9	(3.4)	41.5
Maintenance non-infrastructure	43.0	–	**43.0**	71.4	–	71.4
Enhancements						
Infrastructure enhancements	5.4	–	**5.4**	9.2	–	9.2
Non-infrastructure enhancements	17.5	–	**17.5**	18.5	–	18.5
Total capital expenditure – water	**95.3**	**(2.9)**	**92.4**	**144.0**	**(3.4)**	**140.6**
Grants and contributions – water						
Developer contributions		(1.6)	**(1.6)**		(0.3)	(0.3)
Infrastructure charge receipts – new connections		(2.9)	**(2.9)**		(2.9)	(2.9)
Other contributions		–	**–**		(0.3)	(0.3)
Total grants and contributions – water		**(4.5)**	**(4.5)**		**(3.5)**	**(3.5)**
Capital expenditure – sewerage						
Base						
Infrastructure renewals expenditure	28.2	(1.2)	**27.0**	22.5	(1.3)	21.2
Maintenance non-infrastructure	78.2	(0.4)	**77.8**	100.8	–	100.8
Enhancements						
Infrastructure enhancements	78.1	–	**78.1**	53.2	–	53.2
Non-infrastructure enhancements	76.0	(0.1)	**75.9**	77.5	–	77.5
Total capital expenditure – sewerage	**260.5**	**(1.7)**	**258.8**	**254.0**	**(1.3)**	**252.7**
Grants and contributions – sewerage						
Developer contributions		(0.2)	**(0.2)**		(1.1)	(1.1)
Infrastructure charge receipts – new connections		(3.0)	**(3.0)**		(2.8)	(2.8)
Other contributions		–	**–**		(0.2)	(0.2)
Total grants and contributions – sewerage		**(3.2)**	**(3.2)**		**(4.1)**	**(4.1)**
Total capital expenditure – water and sewerage	**355.8**	**(12.3)**	**343.5**	**398.0**	**(12.3)**	**385.7**
Land sales – proceeds from disposals of protected land			**4.1**			1.1

8. Analysis of working capital

		2014 £m	2013 £m
Stocks		**0.7**	1.1
Trade debtors	– measured household	**32.8**	28.4
	– unmeasured household	**36.5**	35.2
	– measured non-household	**14.2**	13.7
	– unmeasured non-household	**0.3**	0.3
	– other trade debtors	**5.5**	4.0
Measured income accrual		**52.7**	52.9
Prepayments and other debtors		**6.4**	5.5
Trade creditors		**(53.2)**	(58.3)
Deferred income	– customer advance receipts	**(56.7)**	(50.6)
Capital creditors		**(64.4)**	(99.7)
Accruals and other creditors		**(10.2)**	(9.1)
Total working capital		**(35.4)**	**(76.6)**
Total revenue outstanding – household		**69.3**	63.6
Total revenue outstanding – non-household		**14.5**	14.0

Movement in total working capital shown above of (£41.2m) differs to that shown in the cashflow statement on page 98 (£10.6m) due movements in capital and other non-trading debtors and creditors (e.g. VAT debtor movements). The movement in working capital as used in bank covenant calculations is adjusted from that shown in the cashflow statement as follows:

	£m
Working capital and other movements as per regulatory accounts	**10.6**
Include non-regulated movements in working capital	**(0.1)**
Exclude non-trading debtor/creditor movements	**(15.0)**
Adjusted movements in working capital	**(4.5)**

9. Analysis of net debt, gearing and interest costs

Issue Date	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	2,210.6	1,067.6	1,310.7	**4,588.9**
Cash				**(27.4)**
Short term deposits				**(1.1)**
Net debt at 31 March 2014				**4,560.4**
Regulatory capital value				**5,866.0**
Gearing				**77.7%**
Full year equivalent nominal interest cost	128.7	25.9	136.0	**290.6**
Full year equivalent cash interest payment	128.7	25.9	64.7	**219.3**
Indicative weighted average nominal interest rate			5.0%	**6.6%**
Indicative weighted average cash interest rate			2.4%	**4.7%**
Weighted average years to maturity	12.1	11.3	32.7	**17.4**

Supplementary regulatory information (unaudited)

1. Properties analysis for the year ended 31 March 2014 (unaudited)

Issue Date	Water 2014 000s	Sewerage 2014 000s	Water 2013 000s	Sewerage 2013 000s
Number of properties				
Households billed	**1,994.8**	**2,004.3**	1,984.0	1,994.5
Non-households billed	**126.9**	**107.8**	126.8	108.0
Household voids	**103.6**	**102.6**	106.8	104.8
Non-household voids	**22.8**	**22.1**	23.9	23.1
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	**155.90**		149.55	
Measured household	**107.60**		108.63	
Volume (Ml/d)				
Bulk supply export	**1.87**		0.37	
Bulk supply import	**48.55**		52.50	
Distribution input	**1,240.54**		1,203.08	

Directors' responsibilities

Statement of directors' responsibilities

The Directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Act 1991 for:

a) ensuring that proper accounting records are kept by the Appointee as required by paragraph 3 of Condition F of the Instrument and having regard to the terms of any guidelines notified from time to time by Ofwat;

b) preparing on a consistent basis in respect of each financial year accounting statements in agreement with the Appointee's accounting records and in accordance with the requirements of Condition F and any guidelines notified from time to time by Ofwat to the Appointee. So far as reasonably practicable these should have the same content as the annual accounts of the Appointee prepared under the Companies Act 2006 and be prepared in accordance with the formats and the accounting policies and principles which apply to those accounts;

c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued to the Appointee from time to time.

Disclosure of information to the auditors

As far as each director is aware there is no relevant audit information of which the company's auditors are unaware and each director has taken such steps as he or she should 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 the information.

The maintenance and integrity of the Company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

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

Ring fencing

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

Directors' certificate – condition F

The Directors declare that, in their opinion:

i) the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and

ii) the company will, for at least the next 12 months, have available to it:

   a) management resources; and
   b) systems of planning and internal control

   which are sufficient to enable it to carry out those functions.

In making this declaration, the Directors have taken into account:

a) the net worth of the company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2014 and the company's business plan for 2014/15;

b) borrowing facilities which include significant committed undrawn bank facilities;

c) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due;

d) the company's formal risk management process which reviews, monitors and reports on the company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners; and

e) the company's employment policies and strategy as described in detail in the Directors' Report on pages 65 to 66 of the statutory financial statements of Yorkshire Water.

The Directors also declare that in their opinion all contracts entered into with any Associated Company, include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

Independent auditors' report on the regulatory accounting information for Yorkshire Water Services Limited

Independent Auditors' report to the Water Services Regulation Authority (the Authority, referred to as the 'WSRA') and the Directors of Yorkshire Water Services Limited

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts, defined below:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 99 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2014 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

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

What we have audited

We have audited the regulatory accounts of Yorkshire Water Services Limited (the Company) for the year ended 31 March 2014 on pages 94 to 114 (the Regulatory Accounts) which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the statutory financial statements and the Regulatory Accounts; and
- the regulatory current cost accounting statements, for the appointed business comprising the current cost profit and loss account, the current cost cash flow statement and the related notes including the Statement of Accounting Policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

Basis of preparation

In forming our opinion on the Regulatory Accounts, which is not modified, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice (UK GAAP). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 94 and 95 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 96.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts 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 Regulatory Accounts. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Regulatory Accounts 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.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 118, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 (Condition F). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2014 on which we reported on 14 July 2014, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our Statutory audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

14 July 2014

Printed on Revive 100 FSC accredited paper, a recycled grade containing 100% post consumer waste and manufactured at a mill accredited with ISO 14001 environmental management standard.

The pulp used in this product is bleached using a Totally Chlorine Free process (TCF).