Yorkshire Water Finance Plc

Annual report and financial statements
Registered number 11444372
Year ended 31 March 2020

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Directors and advisers

Directors

E M Barber
K O H Smith

Company secretary

K O H Smith

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Bankers

National Westminster Bank PLC
Leeds City Office
8 Park Row
Leeds
LS1 5HD

Strategic report

The directors present their strategic report on the company for the year ended 31 March 2020.

Principal activities and business review

Yorkshire Water Finance Plc ("the company") is a wholly owned subsidiary of Kelda Holdings Limited and operates as part of the Kelda group's regulated water and wastewater business.

The principal activity of the company continues to be that of raising finance for use in the business of its immediate parent company, Yorkshire Water Services Limited ('Yorkshire Water' or 'YWS').

The Yorkshire Water Financing Group was established in 2009 when the whole business securitisation ('WBS') of Yorkshire Water and its subsidiaries was completed and provides a permanent and stable platform for the long term financing of Yorkshire Water. The WBS created a ring-fence around the Yorkshire Water Financing Group ('YWFG'), now comprising Yorkshire Water, Yorkshire Water Services Holdings Limited, Yorkshire Water Services Finance Limited and the company.

In April 2019, the company listed its first sustainability bond on London Stock Exchange's dedicated Green Bond Segment. The £350m Class A, 2.75% issuance had a tenor of 22 years, due to mature in April 2041.

In August 2019 the company successfully repaid its £275m Class A 6% bond due 21 August 2019.

In November 2019, the company issued its second sustainability bond, together with a further £100m issue of its existing 2041 sustainability bond on the same terms as the original issue. The £300m Class A, 1.75% new issue had a tenor of seven years, due to mature in November 2026.

Performance and future outlook

During the year to 31 March 2020 the company focused on delivering excellent internal services and performed in line with management expectations.

It is anticipated that the company will continue to follow the same model for the foreseeable future.

Key performance indicators

Kelda Holdings Limited manages its operations on a divisional basis and the company directors do not believe that further key performance indicators for the company are necessary to enhance the understanding of the development, performance or position of the business. The performance of the regulated water and wastewater business, which includes this company, is discussed in Kelda Holdings Limited's Annual Report and Financial Statements (which does not form part of this report).

Principal risks and uncertainties

The risks which the company are exposed to include interest rate, credit, liquidity and market risk in relation to financial instruments and are discussed in the directors' report. The principal risks and uncertainties for the Kelda Holdings group, and how these are mitigated, are discussed in the Kelda Holdings Limited Annual Report and Financial Statements (which does not form part of this report).

Financial risk management

The objectives when managing capital are to safeguard the Yorkshire Water Financing Group's (the "securitised group") ability to continue as a going concern in order to provide benefits to stakeholders and returns to investors, and to maintain an optimal capital structure. In order to do this, the company's debt and assets, and the liquidity of these, are assessed jointly with the other companies that form the securitised group.

When monitoring capital risk, the securitised group considers interest cover measures and gearing, expressed as the ratio of net debt to Regulatory Capital Value ("RCV") of Yorkshire Water.

Any surplus funds or amounts required to be held in reserve are entirely invested in liquid short term instruments with long term ratings of at least A/A/A2 and/or short term ratings of at least A1/F1/P1 with Standard & Poor's, Fitch and Moody's respectively.

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

Strategic report *(continued)*

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) of s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2020. The company's principal activity is that of a financing company. It does not have employees, business relationships with suppliers, customers or others, and its operations do not impact on the community or the environment. Through their actions, the directors operate the company in a manner consistent with Kelda group's high standards of business conduct. The company's ultimate holding company is Kelda Holdings Limited, a copy of whose s172(1) Statement can be found in its 2020 annual report and financial statements. This statement sets out how the group's decisions and policies affect employees, customers and other stakeholders, suppliers and the impact of the group's operations on the community and the environment.

Approved by the board and signed on its behalf by:

E M Barber
Director

28 July 2020

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2020.

Results

The company's result for the year was a loss after taxation of £9,847,000 (nine month period ended 31 March 2019 profit £54,000). As at 31 March 2020, the company has a net liabilities position of £7,563,000 (2019: assets £2,284,000).

All outstanding intercompany loan receivable balances have been assessed for expected credit losses, which have been estimated based on a forward-looking economic assessment in line with the requirements of IFRS 9. The intercompany loan receivable impairment of £10,029,000 has been included within results shown above.

Proposed dividend

The directors do not recommend the payment of a dividend (2019: £nil).

Future developments

The directors' view on the company's future outlook is discussed in the strategic report on page 2.

Post balance sheet event

On 18th March 2020 Yorkshire Water, Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited launched a consent request to amend the terms of the securitised financing arrangements to reflect changes in Ofwat’s approach to revenue reprofiling, including the introduction of redefined interest cover ratios. On 20th April 2020, the companies announced that the Majority Creditors had voted in favour of the proposed changes. These changes will be incorporated in future investor reports and covenant certificates that will be published in accordance with the requirements of the securitised financing arrangements.

Going concern

The company’s business activities, together with the likely factors to affect its future development, performance and position are set out in the strategic report.

The directors believe that preparing the financial statements on the going concern basis is appropriate given the interdependencies between the company and its parent, Yorkshire Water (YWS). Yorkshire Water Finance Plc is a financing company with the principal activity of raising debt for use in the business of YWS. Under the terms of the company's financing arrangement, YWS guarantees all the company's borrowings and derivatives, therefore whilst YWS continues in operation, the group company is able to ensure that all financing obligations are met. As part of determining if the going concern assumption is appropriate for this company, the directors have challenged and scrutinised the ability of YWS to continue as a going concern including a review of severe but reasonably possible scenarios.

YWS had available a combination of cash and committed undrawn bank facilities totalling £762.6m at 31 March 2020 (2019: £557.3m), comprising £500.2m undrawn committed bank facilities and £262.4m of cash and cash equivalents. The directors have considered the business plan and the cash position of YWS, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the 12 months from the date of signing the financial statements and the impact of Covid-19 on the company. In addition, YWS has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. The securitised financing arrangements, of which this company is a part of, includes covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained fully within the YWS annual report and financial statements. In summary though, a baseline model, established from YWS's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds. Whilst in a reasonably possible downside sensitivity to that base case, YWS could hit a 'trigger' event, this would not affect YWS's ability to continue to trade.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that there are no material uncertainties that could cast significant doubt over the ability of YWS to continue as a going concern, and therefore in turn the ability of the company to continue as a going concern. The directors have adopted the going concern basis of accounting in preparing the financial statements.

Financial risk management

The company is exposed to interest rate, credit, liquidity and market risk in relation to financial instruments. These risks are discussed in detail in note 14 to these financial statements.

Directors' report *(continued)*

Directors

The directors listed below have served the company throughout the year and up to the date of approval of the financial statements, unless otherwise stated:

R Flint (resigned 12 September 2019)
E M Barber
K O H Smith

Directors' indemnities

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 year and is currently in force. The company also purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its directors.

Disclosure of information to independent auditor

As at the date of this report, as far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware and the directors have taken all the steps that they ought to have as directors, in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

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

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 judgments 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 corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' report *(continued)*

Approved by the board and signed on its behalf by:

E M Barber
Director

28 July 2020

Independent auditor's report to the members of Yorkshire Water Finance Plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Yorkshire Water Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.
-

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Recoverability of receivables from Group undertakings • Going Concern Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £8m (2019: £37.5m) which represents approximately 0.2% of total assets (2019: 1%).
Scoping	Our audit scoping has covered 100% of the company's net assets, profit before tax and EBITDA.
Significant changes in our approach	Going Concern is a new key audit matter for the current year as a result of the significant level of judgement surrounding forecasting cash flows due to COVID-19. In the prior year, the transfer of financial instruments from fellow subsidiaries was a key audit matter due to Yorkshire Water Finance plc being established to replace fellow subsidiaries as the issuer of listed bonds and private notes with a fair value on incorporation of £3,648 million. This was a one-off matter on incorporation and no key audit matter has been raised with respect to this in the current year.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Recoverability of receivables from Group undertakings

Key audit matter description	Yorkshire Water Finance plc is part of the Kelda Holdings Limited Group (the "Group"). Receivables from Group undertakings are stated in the balance sheet at £4,329m (2019: £3,846m). There is judgement involved in determining the recoverability of these receivables from Group undertakings based on the financial position and future prospects of the entities which Yorkshire Water Finance plc has loaned amounts to. The assessment of recoverability takes into consideration a range of factors such as the trading performance of the Group, the ability of the Group to secure financing and the Group's ability to respond to changing demands of the regulated market. For further details of the amounts receivable from group companies please see note 9 of the financial statements and note 1 for the accounting policies in relation to intercompany loans.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the appropriateness of the carrying value through understanding the forecast trading performance of the Group in order to assess the ability of the Group undertakings to repay the receivable amounts. This included an assessment of the valuation of the infrastructure assets held by Yorkshire Water Services which ultimately support the future trading performance and cash flow of the Group. We have reviewed management's IFRS 9 workings to consider credit risk within intercompany balances by assessing the underlying net asset position of the counterparty and the availability and liquidity of those assets. We have then re-performed the analysis to consider any debtors that may prima facie appear to be impaired. We also reviewed the historical accuracy of the Group's forecasts by comparing the actual results of previous periods to original forecasts.
Key observations	Based on the work performed we concluded that receivables from Group undertakings were appropriately stated.

5.2. Going Concern

Key audit matter description	As set out in the Director's report, the going concern conclusion for this company is dependent on the going concern assessment of its parent, Yorkshire Water Services Limited (YWS). Therefore we have identified a key audit matter in relation to the going concern of YWS. Given the ongoing uncertainty and volatility in the economy as a result of Covid-

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

	19, together with the Competition and Markets Authority ('CMA') appeal YWS has made in respect of Ofwat's Final Determination ('the FD') for the period 2020-2025, there is an increased level of judgement in relation to the cashflow forecasts underpinning the going concern assumption for YWS and as a consequence, the company. Management's business plan for the purpose of the YWS going concern review reflects the FD, taking no account of any potential upside that may arise as a result of the CMA appeal. Management has then applied sensitivities to that model to assess the impact of reasonably possible downside scenarios, including those triggered by Covid-19. This has allowed management to assess the potential impact of Covid-19 on the original business plan's profit or loss, liquidity and cash flows. Management has concluded that in the worst reasonably possible downside scenario, the company has sufficient liquidity for the going concern period but would breach a 'trigger' interest cover covenant on the banking covenants at March 2021. The 'trigger' covenant acts as an early warning system to the lenders but does not represent a default. As part of their going concern conclusions, management have considered a number of mitigating activities that could be performed to restore ratios above the trigger level. Management's going concern considerations for both YWS and therefore the company and the conclusions thereof are disclosed in note 1.
How the scope of our audit responded to the key audit matter	The procedures we have performed are as follows: • understood the process management have undergone to revise YWS forecasts and perform their going concern review; • agreed the starting business plan to models used for YWS impairment testing; • challenged the assumptions made to determine the sensitivities and revised forecasts for YWS, including the potential impact of Covid-19 on revenue and costs by agreeing to supporting evidence such as budgets, post year end results and third party quotations; • understood the final YWS forecast position and the implication this has on the interest cover ratio covenants; • challenged the assumptions made around mitigating activities, including verifying agreements with the bank in relation to post year end interest restructuring; • reviewed historical accuracy of management's forecasting process, noting the increased level of forecasting difficulty in the current climate; • reviewed the maturity profile of the company's debt and the liquidity for the going concern period; • assessed the contradictory evidence that would suggest a different position to that taken by management is more appropriate, including consideration of market position, latest third party economic forecasts and FY21 results to date; • understood the interdependencies between the company and YWS; and • reviewed the disclosures included in the accounts to confirm that they appropriately disclose the assumptions made and the judgements included in the going concern review.
Key observations	We consider the the adoption of the going concern basis, and the related disclosures provided by management, to be appropriate.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

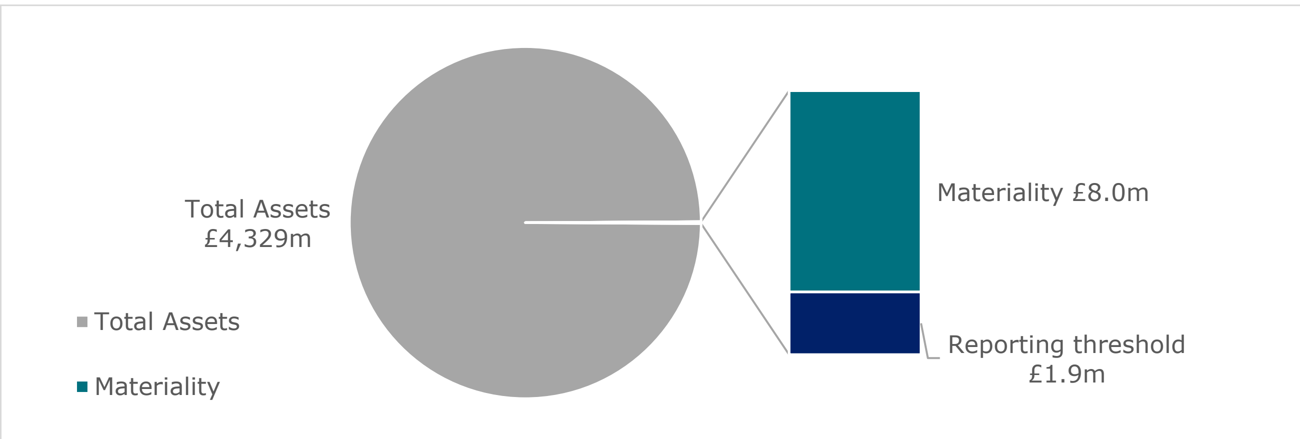
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£8m (2019: £37.5m)
Basis for determining materiality	In determining materiality we considered the primary purpose of the Company is to provide financing to Yorkshire Water Services Limited. Accordingly the company's balance sheet strength is considered to be the key financial metric of relevance to the users of the financial statements. We have therefore used total assets as the benchmark. Using a percentage of 1% results in a materiality of £43.8m (2019: £37.5m). However, the company is also a component of the consolidated financial statements of Kelda Holdings Limited. As required by ISAs (UK), the component materiality applied to the company was determined as £8m (2019: £8m), an amount lower than the materiality applied to the consolidated financial statements as a whole. Moreover, in both the current year and prior year, all work for the statutory audit of the company was also performed at this materiality. As such, the materiality applied in the audit of the financial statements for the company was £8m, which equates to approximately 0.2% of total current assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

6.3. Error reporting threshold

We agreed with the board of directors that we would report to them all audit differences in excess of £1.9m (2019: £1.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies;
- results of our enquiries of management, internal audit and the board of directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team on how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the operating and environmental regulations relevant to the Company.

11.2 Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the board of directors and in-house / external legal counsel concerning actual and potential litigation and claims;

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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 nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the board we were appointed by the Company on 17 December 2018 to audit the financial statements of the Company for the period ending 31 March 2019 and subsequent financial periods.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

Our total uninterrupted period of engagement is 2 years, covering the period from our appointment through to the period ending 31 March 2020.

14.2. Consistency of the audit report with the additional report to those charged with governance

Our audit opinion is consistent with the additional report to those charged with governance we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Boardman, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

28 July 2020

Profit and loss account
for the year ended 31 March 2020

	Note	**Year ended 31 March 2020 £'000**	Nine month period ended 31 March 2019 £'000
Impairment of intercompany receivables		**(10,029)**	-
Interest receivable and similar income	*6*	**207,480**	137,331
Interest payable and similar charges	*7*	**(207,269)**	(137,259)
(Loss)/profit before taxation		**(9,818)**	72
Taxation	*8*	**(29)**	(18)
(Loss)/profit for the year / nine month period		**(9,847)**	54

There are no other items of comprehensive income or expense in the current year or prior period therefore no separate statement of comprehensive income has been presented.

Balance sheet
as at 31 March 2020

	Note	**2020 £'000**	2019 £'000
Current assets			
Debtors (including £4,274,509,000 (2019: £3,514,432,000) due after more than one year)	*9*	**4,328,788**	3,846,029
Cash at bank and in hand		**-**	7
		4,328,788	3,846,036
Creditors: amounts falling due within one year	*10*	**(56,034)**	(333,419)
Net current assets		**4,272,754**	3,512,617
Total assets less current liabilities		**4,272,754**	3,512,617
Creditors: amounts falling due after more than one year	*11*	**(4,280,317)**	(3,510,333)
Net (liabilities)/assets		**(7,563)**	2,284
Capital and reserves			
Called up share capital	*13*	**50**	50
Share premium account	*13*	**2,180**	2,180
Profit and loss account	*13*	**(9,793)**	54
Shareholders' (deficit)/funds		**(7,563)**	2,284

These financial statements on pages 16 to 32 were approved by the board of directors and authorised for issue on 28 July 2020 and were signed on its behalf by:

E M Barber
Director

Company registered number: 11444372

Statement of changes in equity
for the year ended 31 March 2020

	Called up share capital £'000	**Share premium account £'000**	**Profit and loss account £'000**	**Total shareholders' funds/(deficit) £'000**
Balance at 1 April 2019	50	2,180	54	2,284
Total comprehensive expense for the year				
Loss for the year	-	-	(9,847)	(9,847)
Total comprehensive expense for the year	-	-	(9,847)	(9,847)
Balance at 31 March 2020	**50**	**2,180**	**(9,793)**	**(7,563)**

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance on incorporation at 2 July 2018	-	-	-	-
Issue of share capital	50	2,180	-	2,230
Total comprehensive income for nine month period				
Profit for the nine month period	-	-	54	54
Total comprehensive income for the nine month period	-	-	54	54
Balance at 31 March 2019	50	2,180	54	2,284

Notes to the financial statements

1 Accounting policies

Yorkshire Water Finance Plc (the "company") is a public company limited by shares, incorporated in England and Wales and resident for tax in the United Kingdom.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 as applicable to companies using FRS 101.

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

Kelda Eurobond Co Limited, a parent company incorporated in England and Wales, includes the company in its consolidated financial statements. The consolidated financial statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Western House, Halifax Road, Bradford, BD6 2SZ.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Kelda Eurobond Co Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures.

- The disclosures required by IFRS 9 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. No new accounting standards, that are effective for the year ended 31 March 2020, have had a material impact on the company.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Measurement convention

The financial statements have been prepared under the historical cost convention except for certain categories of financial assets and liabilities which have been measured at fair value.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Going concern

The company's business activities, together with the likely factors to affect its future development, performance and position are set out in the strategic report.

The directors believe that preparing the financial statements on the going concern basis is appropriate given the interdependencies between the company and its parent, Yorkshire Water (YWS). Yorkshire Water Finance Plc is a financing company with the principal activity of raising debt for use in the business of YWS. Under the terms of the company's financing arrangement, YWS guarantees all the company's borrowings and derivatives, therefore whilst YWS continues in operation, the group company is able to ensure that all financing obligations are met. As part of determining if the going concern assumption is appropriate for this company, the directors have challenged and scrutinised the ability of YWS to continue as a going concern including a review of severe but reasonably possible scenarios.

YWS had available a combination of cash and committed undrawn bank facilities totalling £762.6m at 31 March 2020 (2019: £557.3m), comprising £500.2m undrawn committed bank facilities and £262.4m of cash and cash equivalents. The directors have considered the business plan and the cash position of YWS, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the 12 months from the date of signing the financial statements and the impact of Covid-19 on the company. In addition, YWS has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. The securitised financing arrangements, of which this company is a part of, includes covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained fully within the YWS annual report and financial statements. In summary though, a baseline model, established from YWS's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds. Whilst in a reasonably possible downside sensitivity to that base case, YWS could hit a 'trigger' event, this would not affect YWS's ability to continue to trade.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that there are no material uncertainties that could cast significant doubt over the ability of YWS to continue as a going concern, and therefore in turn the ability of the company to continue as a going concern. The directors have adopted the going concern basis of accounting in preparing the financial statements.

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Non-derivative financial instruments

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items. At initial recognition, an entity measures a financial asset or a financial liability at fair value. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, this model requires the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Therefore, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the company reviewed and assessed the company's amounts owed by group undertakings for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised.

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

- Amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs; or
- Fair value at the measurement date. The movement in the fair value of the loan or borrowing is recognised in the income statement. The fair values of the borrowings are determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date.

Inflation linked borrowings are adjusted for movements in the Retail Prices Index (RPI) with reference to a base RPI established at trade date. The subsequent gain or loss on this adjustment is recognised in the income statement.

Fair value estimation

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

Quoted market prices or dealer quotes for similar instruments are used for long term debt. The fair value calculations have been adjusted to incorporate own and counter-party credit risk.

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

Impairment

Financial assets (including other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Interest receivable and interest payable

Interest income and interest payable is recognised in profit or loss as the interest accrues using the effective interest method. This is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to the net carrying amount of the financial assets. Interest receivable and interest payable also include movements in fair values of financial instruments.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive loss, in which case it is recognised directly in equity or other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 Accounting estimates and judgements

The preparation of financial statements under FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There were no such areas of judgement or estimation uncertainty deemed significant in these financial statements.

3 Expenses and auditor's remuneration

Auditor's remuneration of £6,000 (2019: £2,000) has been borne by Yorkshire Water in relation to the audit of these financial statements. (Loss)/profit before taxation includes an expected credit loss on intercompany debtors of £10,029,000 (2019: £nil).

4 Staff numbers and costs

The company did not have any employees during the year ended 31 March 2020 (2019: nil).

5 Directors' remuneration

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2019: £nil).

6 Interest receivable and similar income

	Year ended 31 March 2020 £'000	Nine month period ended 31 March 2019 £'000
Interest income from group undertakings	**152,511**	89,842
Amortisation of fair value on transfer of debt	**2,783**	1,903
Movement in fair value of fixed rate sterling bonds	**-**	5,051
Movement in fair value of fixed rate Australian bonds	**2,550**	8,431
Movement in fair value of inter-company loans	**49,636**	32,104
Total interest receivable and similar income	**207,480**	137,331

Interest receivable and similar income includes income from group undertakings of £204,930,000 (2019: £123,849,000).

Notes to the financial statements *(continued)*

7 Interest payable and similar charges

	Year ended 31 March 2020 £'000	Nine month period ended 31 March 2019 £'000
RPI uplift on inflation linked bonds and private notes	**16,865**	6,625
Amortisation of issue costs	**1,593**	797
Interest payable of fixed rate US dollar private notes	**10,440**	6,620
Interest payable of fixed rate sterling bonds and private notes	**107,105**	65,475
Interest payable on inflation linked sterling bonds and private notes	**17,089**	10,883
Interest payable on fixed rate Australian dollar bonds	**1,986**	1,238
Movement in fair value of fixed rate US dollar private notes	**29,314**	45,587
Movement in fair value of fixed rate sterling bonds and private notes	**22,871**	-
Other charges	**6**	34
Total interest payable and similar charges	**207,269**	137,259

Total interest payable and similar charges includes £nil payable to group undertakings. (2019: £34,000).

US dollar private notes, Australian dollar bonds, and certain sterling bonds and private notes are nominated as fair value through profit and loss. As the monies raised through these bonds and private notes are lent on to Yorkshire Water, which has a combination of interest rate and combined cross currency interest rate swaps to hedge the fair value of the fixed rate bonds and private notes, the related intercompany loan is also nominated as fair value through profit and loss.

8 Taxation

Total tax expense recognised in the profit and loss account:

	Year ended 31 March 2020 £'000	Nine month period ended 31 March 2019 £'000
Current tax		
Current tax expense on income for the year	**29**	18
Tax on (loss)/profit	**29**	18

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements. Whilst the intention of Budget 2016 was that the Corporation Tax rate would be set at 17% from 1 April 2020 onwards, legislation will be introduced in Finance Bill 2020 to amend the main rate of corporation tax to 19% from 1 April 2020. This change was announced in Budget 2020 and the cancellation of the enacted cut to 17% made under a Budget resolution passed on 17 March 2020. As this has statutory effect, the 19% rate for 1 April 2020 onward is substantively enacted at 17 March 2020. The company has no unrecognised deferred tax assets in the current or prior year.

Notes to the financial statements *(continued)*

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8 Taxation *(continued)*

The tax on (loss)/profit is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

Reconciliation of effective tax rate

	Year ended 31 March 2020 £'000	Nine month period ended 31 March 2019 £'000
(Loss)/profit for the year excluding taxation	**(9,818)**	72
Tax using the UK corporation tax rate of 19% (2019: 19%)	**(1,865)**	14
Effects of:		
Non-deductible expenses	**1,894**	4
Total tax charge	**29**	18

9 Debtors

	2020 £'000	2019 £'000
Amounts owed by parent company	**4,338,817**	3,846,029
Expected credit loss provision	**(10,029)**	-
	4,328,788	3,846,029
Analysed as:		
Due within one year	**54,279**	331,597
Due after more than one year	**4,274,509**	3,514,432
	4,328,788	3,846,029

Amounts owed by parent company include loans to Yorkshire Water which are unsecured, bear interest at varying nominal rates and have contractual repayment dates, together with accrued interest. The interest rates and repayment dates of these loans match the terms of the underlying debt disclosed in note 12.

Notes to the financial statements *(continued)*

10 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Interest-bearing loans and borrowings (note 12)	**-**	279,458
Amounts owed to group undertakings	**252**	-
Interest payable accruals	**55,767**	53,943
Corporation tax	**15**	18
	56,034	333,419

Amounts owed to group undertakings include £238,000 owed to Kelda Group Limited and £14,000 owed to Yorkshire water services Limited. Both amounts are unsecured, interest free and repayable on demand.

The company maintains a debt service reserve liquidity facility ("DSR") that has been made available to members of the Yorkshire Water Financing Group under a liquidity facility agreement. The DSR is a 12 month standby facility for funding interest expense. During March 2020, the DSR was renewed at £170.1m (2019: £189.0m). As at 31 March 2020, £nil amounts were drawn on this facility (2019: £nil).

11 Creditors: amounts falling due after more than one year

	2020	2019
	£'000	£'000
Interest-bearing loans and borrowings (note 12)	**4,280,317**	3,510,333

Included within interest-bearing loans and borrowings are amounts repayable after five years by instalments and otherwise than by instalments of £84,079,000 (2019: £82,770,000) and £3,363,225,000 (2019: £2,604,258,000) respectively. Borrowings are secured against the assets of the Yorkshire Water Financing Group.

12 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings.

	2020	2019
	£'000	£'000
Creditors: amounts falling due after more than one year		
Interest-bearing loans and borrowings	**4,280,317**	3,510,333
Creditors: amounts falling due within one year		
Interest-bearing loans and borrowings	**-**	279,458
	4,280,317	3,789,791

Notes to the financial statements *(continued)*

12 Interest-bearing loans and borrowings *(continued)*

Interest-bearing loans and borrowings:

Terms and debt repayment schedule	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value 2020**	**Carrying amount 2020 £'000**	Face value 2019	Carrying amount 2019 £'000
Guaranteed bond [c]	**GBP**	**6.000%**	**2019**	**-**	**-**	£275m	279,458
Guaranteed private notes [b]	**USD**	**3.770%**	**2021**	**$115m**	**94,697**	$115m	87,765
Guaranteed private notes [b]	**USD**	**3.770%**	**2022**	**$40m**	**32,976**	$40m	30,531
Guaranteed private notes [b]	**USD**	**5.070%**	**2022**	**$75m**	**61,759**	$75m	57,166
Guaranteed private notes [b]	**USD**	**3.870%**	**2023**	**$150m**	**128,129**	$150m	115,245
Guaranteed bond [a]	**AUD**	**5.875%**	**2023**	**$50m**	**27,489**	$50m	30,014
Guaranteed bond (Exchange bonds) [a]	**GBP**	**6.588%**	**2023**	**£30m**	**31,950**	£30m	34,042
Guaranteed bond (Exchange bonds) [a]	**GBP**	**6.588%**	**2023**	**£181m**	**221,085**	£181m	233,735
Guaranteed private notes [b]	**USD**	**3.870%**	**2024**	**$30m**	**25,649**	$30m	23,047
Guaranteed bond	**GBP**	**1.750%**	**2026**	**£300m**	**298,601**	-	-
Guaranteed bond (Exchange bonds) [a]	**GBP**	**6.454%**	**2027**	**£135m**	**170,713**	£135m	175,166
Guaranteed private notes [b]	**GBP**	**2.030%**	**2028**	**£60m**	**56,564**	£60m	56,190
Guaranteed bond [a]	**GBP**	**3.625%**	**2029**	**£250m**	**274,661**	£250m	262,244
Guaranteed private notes [b]	**GBP**	**3.540%**	**2029**	**£90m**	**107,050**	£90m	102,711
Guaranteed private notes [b]	**GBP**	**2.140%**	**2031**	**£50m**	**45,954**	£50m	45,650
Guaranteed bond (Exchange bonds) [a]	**GBP**	**6.601%**	**2031**	**£255m**	**348,432**	£255m	355,645
Guaranteed bond [a]	**GBP**	**4.965%**	**2033**	**£90m**	**111,793**	£90m	105,436
Guaranteed private notes [b]	**GBP**	**2.210%**	**2033**	**£50m**	**45,338**	£50m	45,052
Inflation linked guaranteed bond (Exchange bonds) [a]	**GBP**	**3.307%**	**2033**	**£128m**	**258,115**	£128m	257,536
Guaranteed private notes [b]	**GBP**	**2.300%**	**2036**	**£40m**	**35,705**	£40m	35,502
Guaranteed private notes [b]	**GBP**	**2.300%**	**2036**	**£50m**	**44,632**	£50m	44,377
Guaranteed bond [c]	**GBP**	**6.375%**	**2039**	**£300m**	**440,141**	£300m	445,663
Inflation linked guaranteed bond [a]	**GBP**	**2.718%**	**2039**	**£260m**	**582,457**	£260m	578,523
Guaranteed bond [a]	**GBP**	**2.750%**	**2041**	**£450m**	**445,785**	-	-
Inflation linked guaranteed private notes	**GBP**	**2.160%**	**2041**	**£50m**	**95,617**	£50m	94,565
Inflation linked guaranteed bond [a 1]	**GBP**	**1.803%**	**2042**	**£50m**	**84,079**	£50m	82,770
Guaranteed bond [a 2]	**GBP**	**3.750%**	**2046**	**£200m**	**210,946**	£200m	211,758
					4,280,317		3,789,791

[1] Amortising - repayments commencing 2032
[2] Associated step-up and call date on 22 March 2023
[a] Quoted on the London stock exchange
[b] Quoted on the Channel Islands stock exchange
[c] Quoted on the London and Frankfurt stock exchanges

Notes to the financial statements *(continued)*

13 Capital and reserves

Called up share capital	**2020**	2019
	£'000	£'000
Allotted, called up and fully paid		
50,001 ordinary shares at £1 each	**50**	50

The profit and loss account represents cumulative profits or losses.

During the prior period the company issued 50,000 ordinary shares for a consideration of £1 each, and 1 ordinary share for a consideration of £2,179,625, all settled in cash. There has been no change in share capital during the current year.

The share premium account contains the premium arising on issue of equity shares, net of issue expenses.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

The company did not pay any dividends during the year or the prior nine month period.

Notes to the financial statements *(continued)*

14 Financial instruments

14 *(a) Fair values of financial instruments*

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Financial assets or liabilities measured at amortised costs and whose carrying value are a reasonable approximation of fair value have not been disclosed in the fair value hierarchy below as there is no requirement to do so. The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying value 2020 £'000	**Fair value 2020 £'000**	**Level 1 2020 £'000**	**Level 2 2020 £'000**	Carrying value 2019 £'000	Fair value 2019 £'000	Level 1 2019 £'000	Level 2 2019 £'000
Financial liabilities designated as fair value through profit or loss								
3.770% $115m private notes 2021	**94,697**	**94,697**	**-**	**94,697**	87,765	87,765	-	87,765
3.770% $40m private notes 2022	**32,976**	**32,976**	**-**	**32,976**	30,531	30,531	-	30,531
5.070% $75m private notes 2022	**61,759**	**61,759**	**-**	**61,759**	57,166	57,166	-	57,166
3.870% $150m private notes 2023	**128,129**	**128,129**	**-**	**128,129**	115,245	115,245	-	115,245
5.875% AUD$50m bond 2023	**27,489**	**27,489**	**-**	**27,489**	30,014	30,014	-	30,014
3.870% $30m private notes 2024	**25,649**	**25,649**	**-**	**25,649**	23,047	23,047	-	23,047
3.540% £90m private notes 2029	**107,050**	**107,050**	**-**	**107,050**	102,711	102,711	-	102,711
3.625% £250m bond 2029	**274,661**	**274,661**	**-**	**274,661**	262,244	262,244	-	262,244
4.965% £90m bond 2033	**111,793**	**111,793**	**-**	**111,793**	105,436	105,436	-	105,436
Total financial liabilities measured at fair value through profit or loss	**864,203**	**864,203**	**-**	**864,203**	814,159	814,159	-	814,159
Financial liabilities measured at amortised cost								
6.000% £275m bond 2019	**-**	**-**	**-**	**-**	279,458	279,859	279,859	-
6.588% £29.9m bond 2023	**31,950**	**34,018**	**34,018**	**-**	34,042	35,504	35,504	-
6.588% £180.8m bond 2023	**221,085**	**205,706**	**205,706**	**-**	233,735	214,691	214,691	-
1.750% £300m bond 2026	**298,601**	**292,050**	**-**	**292,050**	-	-	-	-
6.454% £135.5m bond 2027	**170,713**	**174,622**	**174,622**	**-**	175,166	178,132	178,132	-
2.030% £60m private notes 2028	**56,564**	**59,825**	**-**	**59,825**	56,190	59,803	-	59,803
2.140% £50m private notes 2031	**45,954**	**49,840**	**-**	**49,840**	45,650	49,825	-	49,825
6.601% £255m bond 2031	**348,432**	**362,588**	**362,588**	**-**	355,645	365,373	365,373	-
3.307% £127.8m inflation linked bond 2033	**258,115**	**214,737**	**-**	**214,737**	257,536	211,048	-	211,048
2.210% £50m private notes 2033	**45,338**	**49,832**	**-**	**49,832**	45,052	49,819	-	49,819
2.300% £40m private notes 2036	**35,705**	**39,860**	**-**	**39,860**	35,502	39,851	-	39,851
2.300% £50m private notes 2036	**44,632**	**49,825**	**-**	**49,825**	44,377	49,814	-	49,814
2.718% £260m inflation linked bond 2039	**582,457**	**443,984**	**443,984**	**-**	578,523	451,485	451,485	-
6.375% £300m bond 2039	**440,141**	**478,818**	**478,818**	**-**	445,663	469,197	469,197	-
2.160% £50m inflation linked private notes 2041	**95,617**	**61,076**	**-**	**61,076**	94,565	59,479	-	59,479
2.750% £450m bond 2041	**445,785**	**465,890**	**-**	**465,890**	-	-	-	-
1.803% £50m inflation linked bond 2042	**84,079**	**60,684**	**-**	**60,684**	82,770	59,374	-	59,374
3.750% £200m bond 2046	**210,946**	**205,082**	**205,082**	**-**	211,758	206,486	206,486	-
Total financial liabilities measured at amortised cost	**3,416,114**	**3,248,437**	**1,904,818**	**1,343,619**	2,975,632	2,779,740	2,200,727	579,013
Total financial instruments	**4,280,317**	**4,112,640**	**1,904,818**	**2,207,822**	3,789,791	3,593,899	2,200,727	1,393,172

Notes to the financial statements *(continued)*

14 Financial instruments *(continued)*

14 *(a) Fair values of financial instruments* *(continued)*

The following table show the valuation techniques used for Level 2 fair values.

Class of financial instruments measured at fair value	**Valuation technique**
Bonds and private notes	The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. Quoted market prices or dealer quotes for similar instruments are used for long term debt. The fair value calculations have been adjusted to incorporate own and counter-party credit risk.
Financial instruments not measured at fair value	
Bonds and private notes	The fair values of the bonds have been determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. The fair values of the bonds have been determined by reference to market values for similar instruments.

14 *(b) Credit risk*

Financial risk management

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and investment securities.

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

14 *(c) Liquidity risk*

Financial risk management

Liquidity risk is the risk that the company will not have the level of liquid funding available to meet its requirements. Maintaining an inadequate amount of liquidity and being unable to access the debt markets when required exposes the company to the risk of being unable to finance its functions, whilst maintaining excess liquidity potentially exposes the company to the risk of inefficient funding costs.

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

Notes to the financial statements *(continued)*

14 Financial instruments *(continued)*

14 *(c) Liquidity risk* *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements. It is assumed that LIBOR and indexation remain constant at the year-end position:

	2020						2019					
	Carrying amount	**Contractual cash flows**	**1 year or less**	**1 to <2years**	**2 to <5years**	**5years and over**	Carrying amount	Contractual cash flows	1 year or less	1 to <2years	2 to <5years	5years and over
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities												
Fixed rate sterling bonds and private notes held at fair value	**493,504**	**606,428**	**16,721**	**16,721**	**50,165**	**522,821**	470,391	518,547	16,722	16,722	50,165	434,938
Fixed rate sterling bonds and private notes held at amortised cost	**2,395,847**	**3,149,552**	**89,151**	**89,151**	**633,386**	**2,337,864**	1,962,238	2,457,105	352,990	71,526	601,891	1,430,698
Fixed rate US dollar private notes held at fair value	**343,210**	**284,366**	**10,440**	**153,355**	**120,571**	**-**	313,755	294,806	10,440	10,440	273,926	-
Fixed rate AU dollar bonds held at fair value	**27,489**	**40,503**	**1,986**	**1,986**	**36,531**	**-**	30,014	42,489	1,986	1,986	38,517	-
Inflation linked sterling bonds and private notes held at amortised cost	**1,020,267**	**970,453**	**17,788**	**17,788**	**53,363**	**881,514**	1,013,393	929,663	16,120	16,120	48,358	849,065
	4,280,317	**5,051,302**	**136,086**	**279,001**	**894,016**	**3,742,199**	3,789,791	4,242,610	398,258	116,794	1,012,857	2,714,701

Notes to the financial statements *(continued)*

14 Financial instruments *(continued)*

14 *(d) Market risk*

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments

The company is exposed to foreign exchange risk arising from the issue of US and Australian debt. This debt is lent on to Yorkshire Water with the same coupon and maturity dates. Any foreign exchange exposure is therefore eliminated against an equal and opposite exposure on debtors.

Market risk - Interest rate risk

Profile

At the balance sheet date, the interest rate profile of the company's interest-bearing financial instruments was:

	2020	2019
	£'000	£'000
Fixed rate instruments		
Financial liabilities	**3,260,050**	2,776,398
Variable rate instruments		
Financial liabilities	**1,020,267**	1,013,393

Fixed rate instruments include borrowings which have a fixed interest rate through to maturity. Variable rate instruments include borrowings which are adjusted for movements in the Retail Prices Index (RPI) with reference to a base RPI established at trade date. The amounts disclosed are the carrying values of borrowings.

Sensitivity analysis

The proceeds of bond issuances have been lent on to Yorkshire Water under the same terms. Any interest rate risk exposure is therefore eliminated against an equal and opposite exposure on debtors.

14 *(e) Capital management*

The objectives when managing capital are to safeguard the Yorkshire Water Financing Group's (the "securitised group") ability to continue as a going concern in order to provide benefits to stakeholders and returns to investors, and to maintain an optimal capital structure. In order to do this, the company's debt and assets, and the liquidity of these, are assessed jointly with the other companies that form the securitised group.

When monitoring capital risk, the securitised group considers interest cover measures and gearing, expressed as the ratio of net debt to Regulatory Capital Value ("RCV") of Yorkshire Water.

Any surplus funds or amounts required to be held in reserve are entirely invested in liquid short term instruments with long term ratings of at least A/A/A2 and/or short term ratings of at least A1/F1/P1 with Standard & Poor's, Fitch and Moody's respectively.

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

Notes to the financial statements *(continued)*

15 Contingencies

The banking arrangements of the company operate on a pooled basis, with the main accounts of other members of the Yorkshire Water Financing Group. No losses are expected to arise as a result of this arrangement.

16 Ultimate parent company and ultimate controlling party

The company's immediate parent undertaking is Yorkshire Water Services Limited, incorporated in England and Wales. The ultimate parent undertaking is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK. In the opinion of the directors, there is no ultimate controlling party.

The largest group in which the results of the company are consolidated is that headed by Kelda Holdings Limited, the registered office of which is 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales, the registered office of which is the same as that of the company. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

17 Post balance sheet event

On 18th March 2020 Yorkshire Water, Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited launched a consent request to amend the terms of the securitised financing arrangements to reflect changes in Ofwat's approach to revenue reprofiling, including the introduction of redefined interest cover ratios. On 20th April 2020, the companies announced that the Majority Creditors had voted in favour of the proposed changes. These changes will be incorporated in future investor reports and covenant certificates that will be published in accordance with the requirements of the securitised financing arrangements.