Yorkshire Water Services Finance Limited

Annual report and financial statements

Registered number 04636719

Year ended 31 March 2018

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Directors' and advisers

Directors
R Flint
E M Barber
C Forrest (resigned 15 December 2017)

Independent auditors

Deloitte LLP
Statutory Auditors
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Bankers

National Westminster Bank
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 2018.

Principal activities and review of the business and future expectations

The principal activity of the company continues to be that of raising finance for use in the business of Yorkshire Water Services Limited ('Yorkshire Water'). On 3 July 2008, the company became principal debtor under bonds previously held by Kelda Group Limited which are unconditionally and irrevocably guaranteed by Yorkshire Water. These include £150 million at 6.625% repayable in 2031 and a further £90 million also at 6.625% repayable in 2031.

On 24 July 2009 the whole business securitisation ('WBS') of Yorkshire Water and its subsidiaries was completed, providing a permanent and stable platform for the long-term financing of Yorkshire Water. The WBS created the Yorkshire Water Financing Group (being Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Finance Limited and Yorkshire Water Services Odsal Finance Limited).

Certain bonds held by the company at 31 March 2009 were exchanged with the bond holders for new bonds issued by Yorkshire Water Services Odsal Finance Limited with substantially similar terms and conditions.

No new debt has been raised by the company since the WBS. Future debt will be raised by a separate company within the Yorkshire Water Financing Group.

Performance and future outlook

During the year to 31 March 2018 the company continued to focus on delivering excellent internal services and performed in line with management expectations.

Yorkshire Water has committed to taking the necessary steps to remove the Cayman companies from the WBS and for future debt to be raised by a new company incorporated and tax resident in the UK. The necessary consents for these changes from HMRC, Ofwat and financial creditors within the WBS were obtained in May and June 2018. These changes are in the process of being implemented, and will be completed during 2018.

It is anticipated that the company will continue to follow the same model for the foreseeable future, a view which is supported by the value of its investments, with the balance sheet strength being underpinned by the performance of its investments.

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. The principal risks and uncertainties of Yorkshire Water, and how these are mitigated, are disclosed in that company's financial statements.

Key performance indicators

The company monitors its business objectives using key performance indicators ("KPIs") detailed below:

	2018 £'000	2017 £'000
Result for the financial year	-	-
Net assets	48	48

Strategic report *(continued)*

Financial risk management

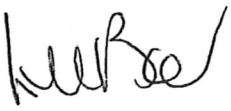
The objectives when managing capital are to guard the Yorkshire Water Financing Group's ability to continue as a going concern in order to provide benefits to stake-holders and returns to shareholders and to maintain an optimal capital structure. In order to do this, the company considers the amount of debt and assets held and their liquidity.

When monitoring capital risk, the company considers interest cover measures and its gearing expressed as the ratio of net debt to Regulatory Capital Value ('RCV').

Centrally managed funds are invested entirely 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.

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

On behalf of the board



E M Barber
Director

27 July 2018

Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2018.

Results

The company's result for the financial year is £nil (2017: £nil).

Proposed dividend

The directors are unable to recommend the payment of any dividends (2017: £nil).

Future developments

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

Financial Instruments

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

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
E M Barber
C Forrest (resigned 15 December 2017)

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

Disclosure of information to independent auditors

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 auditors are 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 auditors are aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of s148 of the Companies Act 2006.

Independent auditors

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

Directors' report *(continued)*

Directors' responsibilities statement

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

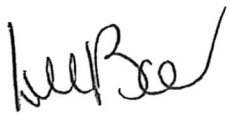
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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.

On behalf of the board



E M Barber
Director

27 July 2018

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its result 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 statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

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).

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.

Summary of our audit approach

Key audit matters	The key audit matters that were identified in the current year were; • recoverability of amounts owed by group undertakings; and • management override of control.
Materiality	The materiality that we used in the current year was £10m. Materiality represents 1.1% of total borrowings.
Scoping	Our audit scoping has resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing.

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

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.

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 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.

Recoverability of receivables from group undertakings	
Key audit matter description	Yorkshire Water Services Finance Limited is part of the Kelda Holdings Limited group ("group"). Receivables from group undertakings are stated in the balance sheet at £1,645.3m. There is significant 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 Services Finance Limited has loaned amounts to. This takes into consideration a range of factors such as the trading performance of the group, the ability of the group to secure future financing and the group's ability to respond to changing demands of the regulated market. For further details please see note 9 to the financial statements and note 1 for the accounting policies in relation to this balance.
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 includes an assessment of the valuation of the infrastructure assets held by Yorkshire Water Services which ultimately support the future trading performance of the Group. We also reviewed the historical accuracy of group's management's forecasts by comparing the actual results to forecasts.

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

Key observations	Based on the work performed we concluded that receivables from group undertakings are appropriately stated.
Management override of controls	
Key audit matter description	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although management is responsible for safeguarding the assets of the business, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the financial statements and accounting records. Specifically we identified the risk as relating principally to inappropriate journal entries being recorded in the ledger.
How the scope of our audit responded to the key audit matter	We obtained journal entry data, reconciled it to the general ledger and selected journals for testing with characteristics indicative of potential manipulation of reporting. We traced the journals to supporting documentation and evaluated the rationale for the posting. We evaluated individually and in aggregate whether the journals tested were indicative of fraud or bias.
Key observations	Based on the work performed, we found no matters that were reportable to those charged with governance.

Our application of 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	£10m
Basis for determining materiality	Materiality represents 1.1% of total borrowings.
Rationale for the benchmark applied	The primary purpose of the Company is to raise funding from external sources and provide funding to Yorkshire Water Services Limited. We have therefore used total borrowings as the benchmark. The applied materiality is capped at the component materiality determined as part of the Kelda Holdings Limited group audit.

We agreed with the board of directors that we would report to them on all audit differences in excess of £0.8m,

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

as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the board of directors on disclosure matters that we identified when assessing the overall presentation of the financial statements

An overview of the scope of our audit

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 team.

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.

We have nothing to report in respect of these matters.

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.

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.

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.

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.

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

Report on other legal and regulatory requirements

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.

Matters on which we are required to report by exception

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.

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.

Other matters

Consistency of the audit report with the additional report to the board of directors

Our audit opinion is consistent with the additional report to the board of directors we are required to provide in accordance with ISAs (UK).

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.

J Boardman.

Jane Boardman
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, UK
27 July 2018

Profit and loss account
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Interest receivable and similar income	6	93,407	81,163
Interest payable and similar expenses	7	(93,407)	(81,163)
Result before taxation		-	-
Taxation	8	-	-
Result for the financial year		-	-

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

Balance sheet
as at 31 March 2018

	Note	2018 £'000	2017 £'000
Current assets			
Debtors (including £1,619,396,000 (2017: £1,587,472,000) due after more than one year)	9	**1,645,299**	1,613,312
Cash at bank and in hand		**1,417**	1,415
		1,646,716	1,614,727
Creditors: amounts falling due within one year	10	**(27,308)**	(27,244)
Net current assets		**1,619,408**	1,587,483
Total assets less current liabilities		**1,619,408**	1,587,483
Creditors: amounts falling due after more than one year	11	**(1,619,360)**	(1,587,435)
Net assets		**48**	48
Capital and reserves			
Called up share capital	13	**50**	50
Profit and loss account	13	**(2)**	(2)
Total shareholders' funds		**48**	48

These financial statements on pages 11 to 24 were approved by the board of directors on 27 July 2018 and were signed on its behalf by:

E M Barber
Director

Company registered number: 04636719

Statement of changes in equity
for the year ended 31 March 2018

	Called up share capital £'000	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2017	50	(2)	48
Total comprehensive income for the year			
Result for the financial year	-	-	-
Total comprehensive income for the financial year	-	-	-
Balance at 31 March 2018	**50**	**(2)**	**48**

	Called up Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2016	50	(2)	48
Total comprehensive income for the year			
Result for the financial year	-	-	-
Total comprehensive income for the financial year	-	-	-
Balance at 31 March 2017	50	(2)	48

Notes to the financial statements

1 Accounting policies

Yorkshire Water Services Finance Limited (the "company") is a private company incorporated and resident for tax in the UK.

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 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, West Yorkshire, 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;
- Comparative period reconciliations for share capital and tangible fixed assets;
- 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 7 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 2018, 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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared under the historical cost convention.

Going concern

The financial statements have been prepared using the going concern basis of accounting.

Classification of financial instruments issued by the company

Following the adoption of IAS 32, 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

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.

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

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

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Index-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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Impairment excluding stocks and deferred tax assets

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. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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.

Non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Accounting estimates and judgements

The preparation of financial statements with 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.

Notes to the financial statements *(continued)*

3 Expenses and auditor's remuneration

Auditor's remuneration of £2,000 (2017: £3,000) has been borne by Yorkshire Water Services Limited in relation to the audit of these financial statements.

4 Staff numbers and costs

The company did not have any employees during the year ending 31 March 2018 (2017: 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 (2017: £nil).

6 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest income on financial assets not at fair value through profit or loss	**93,405**	81,160
Other	**2**	3
Total interest receivable and similar income	**93,407**	81,163

7 Interest payable and similar expenses

	2018 £'000	2017 £'000
Total interest expense on financial liabilities measured at amortised cost	**93,407**	81,163
Total other interest payable and similar charges	**93,407**	81,163

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £nil (2017: £nil) and on all other loans of £48,694,000 (2017: £39,181,000). Of the above amount £44,158,000 (2017: £41,444,000) was payable to group undertakings.

8 Taxation

There is no tax charge for the year (2017: £nil).

Notes to the financial statements *(continued)*

9 Debtors

	2018	2017
	£'000	£'000
Amounts owed by group undertakings	1,645,299	1,613,312
	1,645,299	1,613,312
Due within one year	25,903	25,840
Due after more than one year	1,619,396	1,587,472

The amounts owed by group undertakings are unsecured, bear interest at a nominal rate and have contractual repayment date. The interest rates and repayment dates of intercompany loans are the same as the guaranteed bonds disclosed in note 12.

10 Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Amounts owed to group undertakings	21,226	21,223
Other creditors	6,082	6,021
	27,308	27,244

Amounts owed to group undertakings are unsecured, bear interest at a nominal rate and repayable on demand. The interest rates and repayment dates of intercompany loans are the same as the guaranteed bonds disclosed in note 12.

11 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Guaranteed bonds (see note 12)	888,573	862,039
Amounts owed to group undertakings	730,787	725,396
	1,619,360	1,587,435

Amounts owed to group undertakings are unsecured and have contractual repayment dates. Interest is charged at the same rates as the external bonds shown in note 12.

Notes to the financial statements *(continued)*

12 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2018 £'000	2017 £'000
Creditors: amounts falling due after more than one year		
Guaranteed bonds	888,573	862,039
	888,573	862,039

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2018 £'000	Carrying amount 2018 £'000	Face value 2017 £'000	Carrying amount 2017 £'000
Guaranteed bonds (stranded)[1]	GBP	5.375%	2023	200,000	5,204	200,000	4,944
Index linked guaranteed bonds (stranded)	GBP	3.048%	2033	100,000	(879)	100,000	(924)
Index linked guaranteed bonds	GBP	1.462%	2051	125,000	172,732	125,000	166,156
Index linked guaranteed bonds	GBP	1.460%	2056	125,000	172,661	125,000	166,081
Index linked guaranteed bonds	GBP	1.758%	2054	85,000	114,330	85,000	109,951
Index linked guaranteed bonds	GBP	1.823%	2050	65,000	87,308	65,000	83,964
Index linked guaranteed bonds	GBP	1.709%	2058	100,000	134,295	100,000	129,157
Guaranteed bonds (stranded)[2]	GBP	5.500%	2027	150,000	6,587	150,000	6,521
Guaranteed bonds	GBP	5.500%	2037	200,000	195,562	200,000	195,432
Guaranteed bonds (stranded)	GBP	6.625%	2031	240,000	773	240,000	757
				1,390,000	888,573	1,390,000	862,039

All bonds are quoted on the London Stock Exchange.
[1] Quoted on London, Frankfurt and Berlin stock exchanges
[2] Quoted on London and Frankfurt stock exchanges

Certain bonds, held by the company at 31 March 2009, were exchanged with the bondholders for new bonds issued by Yorkshire Water Odsal Finance Limited during 2009/10. The bonds exchanged have different nominal amounts and applicable interest rates to those of the original bonds.

Included within guaranteed bonds are amounts repayable after five years by instalments and otherwise than by instalments of £nil (2017: £nil) and £883,368,000 (2017: £862,039,000) respectively. Borrowings are secured against the assets of the Yorkshire Water Financing Group.

Notes to the financial statements *(continued)*

13 Capital and reserves

Called up share capital	2018 £'000	2017 £'000
Allotted and called up		
50,000 (2017: 50,000) ordinary shares at £1 each (2017: at £1 each)	50	50
	50	50

On 31 March 2018, £37,000 (2017: £37,000) remained unpaid in respect to ordinary shares and is included in debtors above as amounts receivable from group undertakings.

The profit and loss account represents cumulative profits or losses, net of dividends paid.

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.

14 Financial instruments

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).

	Carrying value 2018 £'000	Fair value 2018 £'000	Level 1 2018 £'000	Level 2 2018 £'000	Carrying value 2017 £'000	Fair value 2017 £'000	Level 1 2017 £'000	Level 2 2017 £'000
Financial liabilities measured at amortised cost								
5.375% £200m bond 2023	**5,204**	**8,203**	**-**	**8,203**	4,944	8,709	-	8,709
5.50% £150m bond 2027	**6,587**	**9,774**	**-**	**9,774**	6,521	10,360	-	10,360
5.50% £200m bond 2037	**195,562**	**279,860**	**279,860**	**-**	195,432	292,248	292,248	-
6.625% £240m bond 2031	**773**	**188**	**-**	**188**	757	200	-	200
3.048% £100m index linked bond 2033	**(879)**	**109**	**-**	**109**	(924)	70	-	70
1.462% £125m index linked bond 2051	**172,732**	**205,850**	**-**	**205,850**	166,156	207,712	-	207,712
1.46% £125m index linked bond 2056	**172,661**	**219,812**	**-**	**219,812**	166,081	216,150	-	216,150
1.758% £85m index linked bond 2054	**114,330**	**153,790**	**-**	**153,790**	109,951	154,139	-	154,139
1.823% £65m index linked bond 2050	**87,308**	**112,944**	**-**	**112,944**	83,964	113,672	-	113,672
1.7085% £100m index linked bond 2058	**134,295**	**188,670**	**-**	**188,670**	129,157	189,310	-	189,310
Total financial liabilities measured at amortised cost	**888,573**	**1,179,200**	**279,860**	**899,340**	862,039	1,192,570	292,248	900,322
Total financial instruments	**888,573**	**1,179,200**	**279,860**	**899,340**	862,039	1,192,570	292,248	900,322

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 above as there is no requirement to do so.

Notes to the financial statement *(continued)*

14 Financial instruments *(continued)*

***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	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.
Financial instruments not measured at fair value	
Bonds	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.

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.

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)*

***Liquidity risk** (continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2018						2017					
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000
Non-derivative financial liabilities												
5.375% guaranteed bonds 2023 (stranded bonds)	5,204	8,533	363	363	7,807	-	4,944	8,895	363	363	1,089	7,080
5.5% guaranteed bonds 2027 (stranded bonds)	6,587	11,128	407	407	1,221	9,093	6,521	11,535	407	407	1,221	9,500
6.625% guaranteed bonds 2031 (stranded bonds)	773	311	11	11	33	256	757	322	11	11	33	267
5.5% guaranteed bonds 2037	195,562	410,748	11,000	11,000	33,000	355,748	195,432	421,748	11,000	11,000	33,000	366,748
3.048% index linked guaranteed bonds 2033 (stranded bonds)	(879)	81	2	2	5	72	(924)	83	2	2	5	74
1.8225% index linked guaranteed bonds 2050	87,308	138,476	1,597	1,597	4,791	130,491	83,964	129,618	1,478	1,478	4,433	122,229
1.462% index linked guaranteed bonds 2051	172,732	257,024	2,526	2,526	7,580	244,392	166,156	240,178	2,338	2,338	7,013	228,489
1.75756% index linked guaranteed bonds 2054	114,330	187,075	2,017	2,017	6,052	176,989	109,951	174,979	1,867	1,867	5,600	165,645
1.46% index linked guaranteed bonds 2056	172,661	269,564	2,523	2,523	7,571	256,947	166,081	251,779	2,335	2,335	7,005	240,104
1.7085% index linked guaranteed bonds 2058	134,295	226,572	2,303	2,303	6,910	215,056	129,157	211,792	2,131	2,131	6,394	201,136
	888,573	1,509,512	22,749	22,749	74,970	1,389,044	862,039	1,450,929	21,932	21,932	65,793	1,341,272

Notes to the financial statements *(continued)*

14 Financial instruments *(continued)*

Market risk

Financial risk management

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

Market risk - Interest rate risk

Profile

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

	2018 £'000	2017 £'000
Fixed rate instruments		
Financial liabilities	**208,126**	207,654
	208,126	207,654
Variable rate instruments		
Financial liabilities	**680,447**	654,385
	680,447	654,385

Fixed rate instruments include borrowing 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 value of borrowings.

Capital management

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

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

Centrally managed funds are invested entirely 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.

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 other group companies and the bank balances of each subsidiary can be offset against each other. No losses are expected to arise as a result of this arrangement.

16 Ultimate parent company and parent company of larger group

The companies immediate parent undertaking is Yorkshire Water Services Limited. The ultimate parent undertaking and controlling party is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK.

The largest UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.