

Kelda Holdings Limited

Annual report and financial statements

Registered number 99329

For the year ended 31 March 2019

Kelda Holdings Limited
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for the year ended 31 March 2019

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Strategic Report

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Strategic Report

Our Business

Kelda Holdings Limited (the company) and its subsidiaries, joint ventures and associates (the group) is made up of several businesses:

Yorkshire Water Services Limited (Yorkshire Water)

Yorkshire Water is the principal UK subsidiary of the group, providing water and waste water services to more than five million people and 140,000 businesses. Every day, Yorkshire Water supplies around 1.3 billion litres of drinking water to homes and businesses in Yorkshire. Through the efficient operation of its extensive wastewater network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment.

Yorkshire Water results are largely presented as the 'UK Regulated Water Services' segment.

Business strategy: Yorkshire Water's vision is 'Taking responsibility for the water environment for good'. There are seven Customer Outcomes that shape everything the business does:

- We provide you with the level of customer service you expect and value.
- We provide you with water that is clean and safe to drink.
- We make sure that you always have enough water.
- We take care of your waste water and protect you and the environment from sewer flooding.
- We protect and improve the water environment.
- We understand our impact on the wider environment and act responsibly.
- We keep your bills as low as possible.

Further details of Yorkshire Water's business strategy are detailed within this strategic report.

Kelda Water Services Limited (KWS)

Following a strategic decision by the company's parent company to seek to dispose of the non-regulated businesses owned by the company, the sale of two of the KWS businesses was completed in the reporting period. The respective sale completion dates were;

- Kelda Water Services (Grampian) Limited, 18 December 2018; and
- Aberdeen Environmental Services Limited, 18 December 2018.

The results for the year in relation to these entities are presented within discontinued operations.

Loop Customer Management Limited (Loop)

Loop specialises in cost effective customer relationship management. Loop's main contract is to provide customer service support to Yorkshire Water.

Business strategy: Focus on the key competency of providing customer service solutions to Yorkshire Water.

Keyland Developments Limited (Keyland)

Keyland adds value to the group's surplus property assets, usually by obtaining planning permission for the most beneficial use and selling into the market or undertaking development in partnership with others. The results of Keyland include the group's share of its associates and joint ventures.

Business strategy: To add value to land with development potential and to maximise proceeds from the sale of that land.

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Three Sixty Water Limited (TSW) and its subsidiaries (collectively TSWG)

TSWG specialises in services to the non-household retail (NHHR) sector either by directly providing NHHR water and waste water services or providing support services to entities which in turn offer NHHR water and waste water services.

As part of the group's strategy to focus on wholesale and household retail activities the sale of the NHHR customer base to Business Stream (Scotland's largest non-domestic water supplier) is expected to complete during the 2019/20 financial year.

Kelda Transport Management

Business strategy: To comply with the Goods Vehicles (licencing of operators) Act 1995, to demonstrate continuous and effective management of two operating licences (Yorkshire and North-West England) for Large Goods Vehicles (LGV) allowing Yorkshire Water Services Limited ("YWS") to operate LGV whilst promoting operating efficiencies.

As per the requirement of the company's operating licence, all legal and statutory documentation have transferred from Yorkshire Water. The company can demonstrate independence of Yorkshire Water. Three appointed transport managers are in place with two appointed board directors supported by a company secretary.

Our business strategy for Yorkshire Water

As a water and waste water company we provide some of society's most essential services, and we are a custodian of the natural environment and critical infrastructure. Our vision is "taking responsibility for the water environment for good", which captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability. The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the resilience of our essential water and waste water services, and of our business.








Central to our strategy is the delivery of our customers' priorities, defined in seven Customer Outcomes and 26 Performance Commitments. These are summarised in the diagram below. These were shaped and agreed through engagement with over 30,000 of our customers, and with our stakeholders and regulators.

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Our Performance Commitments and Customer Outcomes

							
Customer outcomes	We provide you with water that is clean and safe to drink	We make sure that you always have enough water	We take care of your waste water and protect you and the environment from sewer flooding	We protect and improve the water environment	We understand our impact on the wider environment and act responsibly	We provide the level of customer service you expect and value	We keep your bills as low as possible
Our performance commitments	Drinking water quality compliance Corrective actions Drinking water quality contacts Stability and reliability factor - water quality	Leakage Water use Water supply interruptions Stability and reliability factor - water networks	Internal flooding External flooding Pollution incidents Stability and reliability factor - waste water networks	Length of river improved Visitor satisfaction Working with others Bathing water quality Land conserved and enhanced Stability and reliability factor - waste water quality	Energy generation Waste diverted from landfill	Quality of customer service (SIM) Service commitment failures Overall customer satisfaction	Number of people who we help to pay their bill Value for money Bad debt

The Performance Commitments set the levels of service we are working to achieve up to 2020, across a range of activities which customers and regulators confirm are a priority, such as further reducing pollution incidents and leakage.

The regulatory regime in which we operate includes financial and reputational outcome delivery incentives (ODIs) if we under or over perform against some of the Performance Commitments. Where financial incentives have been agreed, they become applicable only when we reach defined levels of service either side of the Performance Commitment. You can find more detail about the Customer Outcomes, Performance Commitments and ODIs in our Annual Performance Report (APR) at: www.yorkshirewater.com/ourperformance.

Our new long-term strategy

We published a new long-term strategy called #notjustwater in August 2018. This can be found at: www.yorkshirewater.com/biggoals.

Our strategy recognises how we need to meet the challenges that are facing Yorkshire in the future; how a growing population means that we need to change to ensure enough water is available and that we continue to take away and recycle waste water. The strategy identifies five 'Big Goals' that will shape everything we do in the future.

- 1. Customers:** We will develop the deepest possible understanding of our customers' needs and wants, and ensure that we develop a service tailored and personalised to meet those needs.
- 2. Water supply:** We will always provide our customers with enough safe water, we will not waste water and always protect the environment.
- 3. Environment:** We will remove surface water from our sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.
- 4. Transparency:** We will be a global benchmark for openness and transparency.
- 5. Bills:** We will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying our bill. We will not waste money.

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To develop our new strategy, we looked closely at the future economic, social and environmental issues Yorkshire faces as a region. We spoke at length to our varied and diverse customers and stakeholders. A suite of extensive and innovative assessments has helped us develop the strategy and Big Goals to ensure it meets the wants and needs of the society we serve, including:

- Consultation and engagement with our customers and stakeholders - talking to over 30,000 people to help ensure our plans are aligned with their expectations. We asked where we can do better to improve what we do, how we do it, and how we can work better with others to make sure that the people of Yorkshire get the best all round value for what they spend on water.
- Analysis of how communities in Yorkshire are made up now and how that will change in the future. We set out to better understand what people value in their lives and the role water plays in that, observing how customers with different lifestyles rely on water in different ways.
- Applying our cutting-edge Six Capitals approach to gain a rich understanding of our impact as a company on the economy, people and environment of Yorkshire.
- Careful consideration of the latest data on wider trends such as the impact of the growing population and changes to the climate.

Our long-term strategy sets the context for our new business plan for the period from 2020 to 2025, known as Asset Management Period 7 (AMP7). The detailed plan sets out how we will maintain and improve water and waste water services in Yorkshire to ensure resilience and sustainability. We submitted our new business plan in September 2018 and our regulator, Ofwat, is now undertaking a review and challenge process which will conclude by the end of 2019. You can find our plan at:

www.yorkshirewater.com/ourbusinessplan.

Asset Management Periods (AMPs)

The water industry operates in five-year cycles known as Asset Management Periods or AMPs. This report relates to the penultimate year of AMP6, which runs from 1 April 2015 to 31 March 2020.

Some water companies are in the process of agreeing their business plans for AMP7 with the economic regulator for the water sector, Ofwat. AMP7 will start on 1 April 2020 and run until 31 March 2025.

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Resilience and sustainability are imperatives within our new strategy

Central to our new long-term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to the resilience of our essential water and waste water services, such as climate change and population growth. We also know how important it is that we maintain the trust of our customers and stakeholders by acting with the highest standards of integrity in everything we do.

To help us make sure that our decision-making deals directly with these matters, we are using the concept of the Six Capitals, shown below. We show how they are the critical inputs to our business model over the page.



FINANCIAL CAPITAL

Our financial health and efficiency.



HUMAN CAPITAL

Our workforce's capabilities and wellbeing.



MANUFACTURED CAPITAL

Our pipes, treatment works, offices and IT.



INTELLECTUAL CAPITAL

Our knowledge and processes.



NATURAL CAPITAL

The materials and services we rely on from the environment, especially water.



SOCIAL CAPITAL

Our relationships and customers' trust in us.

We are working to apply the capitals to enhance our resilience and sustainability by informing our risk management, decision making and investment choices. Going further than the traditional focus on financial capital by considering the positive and negative impacts and dependencies across all the capitals, helps an organisation improve its understanding of how to make decisions. These decisions have a balanced impact and which take account of risk and value, so that more long-term sustainable approaches can be targeted.

We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental and social attributes associated with our activities, and considering both our negative and positive impacts to society. We were delighted to be recognised for our leading approach at the international Finance for the Future Awards in 2018, winning the category for embedding an integrated approach.

In January 2019, we published our Sustainable Finance Framework. This has been made possible in part because of our maturity in applying the Six Capitals approach to be able to monitor the impact of our investments. Subsequently, £450m of debt financing has been raised in accordance with this framework, including a £350 million, 22 year bond issued in April 2019.

Find out more about our approach, including a range of case studies and our first Total Impact and Value Assessment, on our website at www.yorkshirewater.com/capitals. You can also find more details about our Sustainable Finance Framework at www.keldagroup.com/investors/sustainable-finance.

The immediate impact of our new strategy

We announced in December 2017 that we had committed significant investment to several priority areas of service, with the aim of being in the upper quartile of water companies in the next AMP. These new commitments were made following extensive consultation with our customers and have been strongly supported by stakeholders, such as the Yorkshire Forum for Water Customers. We are working to:

- reduce leakage by 40% by 2025;
- cut category three pollution incidents by 40%;

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- reduce sewer flooding by 70% by 2021; and
- minimise the average interruption time per property to two minutes by 2021.

We have also committed to a policy of being 'open by default' by 2020. We have already shared a wide range of new data, working closely with the Open Data Institute, and supporting a number of innovation events and 'hackathons', where people collaborate to solve problems around data. The objective of this approach is to enable fresh insight that unlocks innovative new approaches that we can use to improve customer service, environmental performance and value for money.

In April 2019, the water industry collectively published five stretching Public Interest Commitments on leakage, affordability, carbon, plastics and social mobility. The commitments all relate to areas of strategic importance to the resilience and sustainability of water and waste water services. We actively helped the industry to shape these commitments and they complement our plans for AMP7 and beyond. We have already started to escalate our focus on these areas, for example by introducing new governance arrangements to oversee the necessary response action. We are delighted to have delivered further reduction in our carbon emissions and outperformed our leakage target despite the operational challenges from the extreme weather experienced in 2018/19. The Public Interest Commitments can be found at:

<https://www.water.org.uk/wp-content/uploads/2019/04/Public-Interest-Commitment.pdf>. We provide further details on our progress to these bold new commitments in the upcoming sections of this Strategic Report.

Communicating progress and plans towards our strategy through this report

This Strategic Report summarises our performance in 2018/19. We explain our latest performance, including where we have been successful in meeting or exceeding our Performance Commitments, and why some commitments have not yet been delivered. We also set out the future challenges we face and the plans we are putting in place to mitigate strategic threats and to gain from opportunities.

Over the following pages you will find an explanation of our business model and a business performance summary, followed by a section on each of our seven Customer Outcomes where we share headline performance on everything material to our business and services. Each outcome section starts with a table summarising the latest status on our Performance Commitments and other important activities.

Comparing our performance to others

We and the other water companies in England and Wales provide data to a central hub so you can compare how we are performing against each other and how the water industry compares to other sectors. Visit www.discoverwater.co.uk to find latest information on water quality, environmental performance, customer service and water bills.

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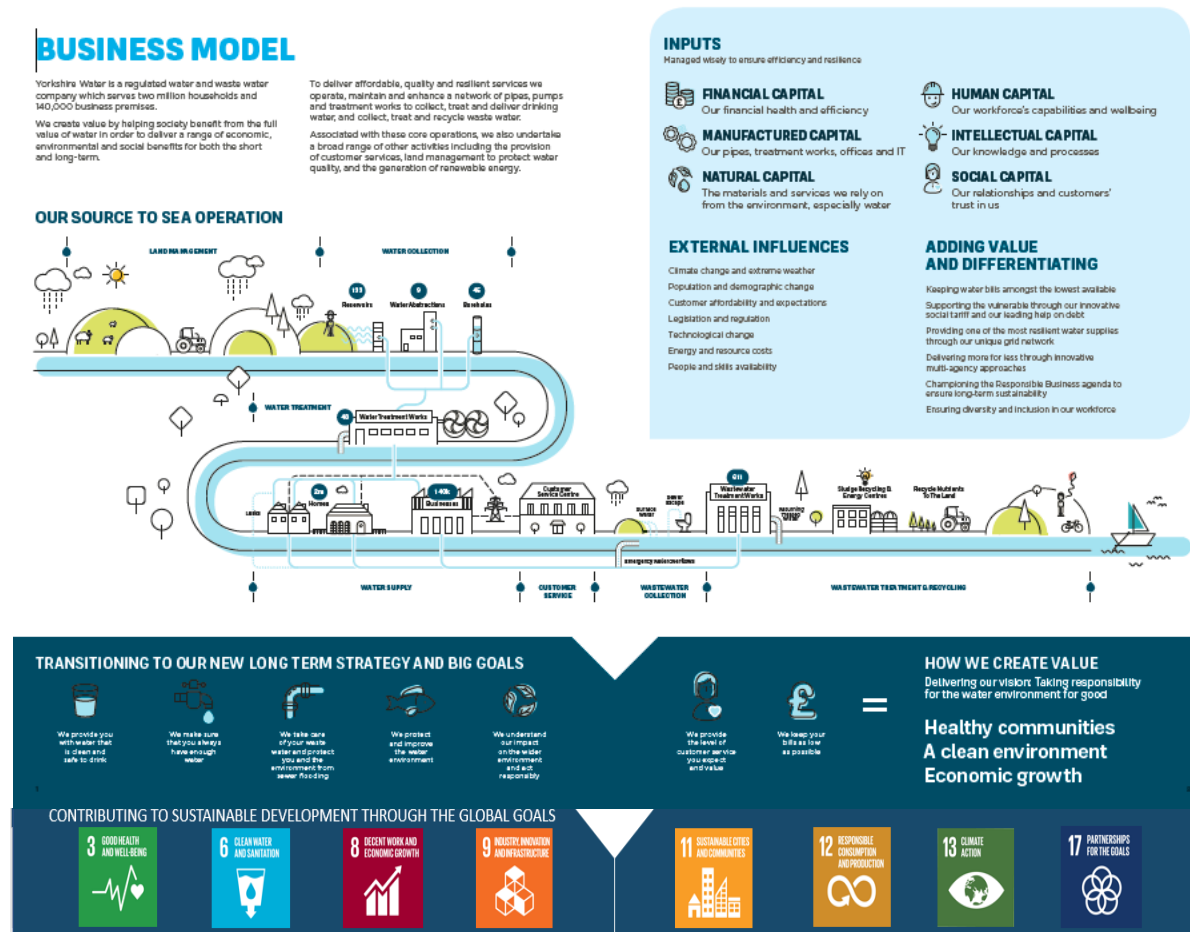
Business Model

Yorkshire Water is a regulated water and waste water company which serves two million households and 140,000 business premises.

We create value by helping society benefit from the full value of water in order to deliver a range of economic, environmental and social benefits for both the short and long-term.

To deliver affordable, quality and resilient services we operate, maintain and enhance a network of pipes, pumps and treatment works to collect, treat and deliver drinking water, and collect, treat and recycle waste water.

Associated with these core operations, we also undertake a broad range of other activities including the provision of customer services, land management to protect water quality and the generation of renewable energy.



The following sections cover the seven Customer Outcomes used to measure financial and non-financial performance criteria. These outcomes have been identified as of highest importance to our customers. Each Customer Outcome has been considered separately, alongside other important measures.

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Yorkshire Water Services Limited (YWS)

Customer outcome: We provide the level of customer service you expect and value

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	84.3	Year-on-year improvement	84.0	Year-on-year improvement**
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	94% water 89% waste water	Average 2015-20 performance to be better than average in 2010-15	95% water 88% waste water	Average 2015-20 performance to be better than average in 2010-15
Service commitment failures Number of times we did not meet minimum standards	12,203	Average 2015-20 performance to be less than average last 3 years of 2010-15	14,221	Average 2015-20 performance to be less than average last 3 years of 2010-15

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

**Ofwat is revising the customer satisfaction metric over 2019/20 in preparation for new AMP7 metrics.

In order to meet this Outcome, we believe we need to deliver leading customer service, engage with customers and stakeholders and secure customer and stakeholder trust.

Delivering leading customer service

The Service Incentive Mechanism (SIM) is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. Our overall score this year was 84.0 points, compared to 84.3 points last year. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of our service, for billing, waste and clean water services. From a maximum score of five points we scored 4.38 in 2018/19, which is lower than 2017/18. The billing score of 4.64 was one of the best in the industry, but our water and waste scores were below average.
- 25% of the score is determined through our performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. We scored 20.67 out of a maximum 25 points, improved from 20.14 in 2017/18.

Our overall SIM score means we have not achieved our Performance Commitment which is to improve year on year. Our billing related services have continued to be strong and match our ambition. However, the cold weather at the start of the year followed by a prolonged dry period, caused disruption to our water network and therefore dissatisfaction to our customers. This also links to the increase in service commitment failures.

Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. This has resulted in a reduction in initial and repeat contacts. Where complaints occurred, we resolved them quickly and overall escalated written complaints reduced by 29%.

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In 2019/20 the SIM surveys will no longer take place in the current format as Ofwat will replace the measure with Customer Measure of Experience (C-MeX) from 2020. We welcome this change as the new measure will capture customer satisfaction of the services we provide, including where there has been no direct contact. It also incentivises companies to compare performance outside the industry.

We strive to be a leader in service across all sectors, as measured by the UK Customer Satisfaction Index. In the UK overall scores have reduced each of the last three years. In January 2019, our score also reduced to 76, compared to our score in January 2018 of 77 out of 100. This is better than the average utility score of 74 but not as high as the all-sector score of 78.

Our customer service is also measured by the Consumer Council for Water (CCW) through an independent survey of customer satisfaction. The latest results for Yorkshire Water show high levels of overall customer satisfaction: 95% for water services and 88% for waste water services. We are pleased to be on track to achieve our Performance Commitment to improve average satisfaction scores this AMP compared to the last one.

This latest position on the Performance Commitments reflects that we are managing complaints well once they occur but need to respond to issues resulting from operational issues faster to restore service. A Waste Water Customer Field Transformation Programme in 2019 will help deliver first time resolution and faster response times for our customers. As a result we expect to see increased satisfaction scores and a reduced number of complaints. This will be measured through the C-Mex shadow survey which is different to SIM. We will therefore monitor and respond to any differences in the metrics.

Engaging with customers and stakeholders

Our ongoing conversations with customers and stakeholders continue to help shape the way we deliver our services to customers, and to guide the development of our future plans. Our Insight Team manages customer research, working closely with Loop and Service Delivery, and our Internal Communications Teams manage colleague engagement. We also have a dedicated Political and Stakeholder Engagement Team within our Communications directorate that ensures that stakeholders are a key focus of the business.

The team employs a range of engagement approaches to involve stakeholders in our work. Our ongoing stakeholder contact programme means we have a good understanding of our key stakeholders in the region. We have good relationships with all our local authorities, Members of Parliament, regulators and the environmental non-governmental organisation community.

This year we continued to build on the engagement we began in 2017/18 by returning to our key stakeholders to discuss how their feedback helped to shape both our new Long-Term Strategy, and our PR19 business plan. We continue to evolve our approach to expand the quality and quantity of engagement and participation, embracing a range of best practice and innovative approaches to secure valuable customer and stakeholder insight. For example, in 2018/19 we have:

- Co-created our long-term strategy and five-year business plan with our customers and stakeholders.
- Explored customers' different lifestyles to better understand their individual service needs.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Developed our stakeholder contact programme to include a wider range of stakeholders. This allows us to get a greater range of views on how we should deliver services in future.
- Helped build the knowledge and expertise amongst stakeholders around the challenges facing the industry by showcasing our operational activities and capital investment through a series of site visits.
- Held a series of multi-stakeholder round table discussions on key topics including flooding, safeguarding and planning of new developments to help shape both our plans and public policy

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- Established partnerships with key stakeholders, including local authorities, the Environment Agency (EA), non-governmental organisations and others to examine the potential additional benefits that can be gained from working together, for example through the innovative Living with Water Partnership in Hull and Haltemprice.

The results of stakeholder engagement process have enabled us to establish what the key issues are for our stakeholders and the material topics we need to report on within our integrated reporting. Our different stakeholder groups were engaged in a number of different ways and raised a variety of issues as seen in the Stakeholder Issues Table which can be accessed at www.yorkshirewater.com.

Further information can be found in the “We understand our impact on the wider environment and act responsibly” section on page 24.

Securing customer and stakeholder trust

As we state at the outset of this report, we always want to provide you with information you can trust. When we don’t get it right, we risk losing trust and confidence.

We published our assurance plan to explain the process we have in place to give confidence that the information we publish is accurate and accessible. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets customers’ and stakeholders’ needs. You can find our assurance plan on our website at this link: <https://www.yorkshirewater.com/about-us/what-we-do/our-reports/our-assurance-plan>.

We have made considerable improvements in the transparency of our financial and other reporting. We have worked hard to ensure all our published information in 2018/19 has been easy to access, and easy to read and understand. These improvements were confirmed by Ofwat in its Company Monitoring Framework (CMF) report issued on 31 January 2019. This report confirmed that we have retained our “targeted” categorisation. Ofwat concluded that Yorkshire Water had met its expectations in six assessment areas and exceeded expectations in three areas (outcomes, risk and compliance and assurance plan).

Ofwat had a minor concern in one area (financial monitoring framework) and serious concerns in one area: charges engagement, where new connections charging arrangements were re-published with amended charges, without this change having been pro-actively communicated with stakeholders or Ofwat. This issue was addressed prior to publication of the CMF assessment and rigorous steps put in place to prevent it re-occurring. Ofwat considered that, looking at our performance in the round, the improvements were not sufficient to promote us to self-assured.

In previous years we have used the Business in the Community (BITC) Corporate Responsibility Index to benchmark our performance as a responsible business. BITC has changed their approach, and in 2018/19 we chose to be a ‘forerunner’ of the new BITC Responsible Business Tracker which has updated the benchmark process in line with latest best practice and societal priorities. In this pilot cycle there were no scores but we received highly positive feedback about our performance from BITC. In the future, the Tracker will allow us to benchmark our performance as a responsible business.

We work to build stakeholder trust through everything we do, including all the activity we describe throughout this section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach. During 2018/19 the industry has been challenged by government, opposition and regulators to improve transparency and do more to build trust amongst customers. To respond to these challenges, we have already taken steps to improve transparency including:

- Simplifying our financial arrangements, including closing our Cayman Islands subsidiaries in August 2018.
- Continuing with our open data approach, for example by being one of the first to publish an ethnic pay gap report. We have committed to being open by default by 2020 and have already published large amounts of new data in partnership with the Open Data Institute and Data Mill North.

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- Launching a consultation to help shape a new openness and transparency policy for the company.
- Complying with the GRI Core Standard to ensure we disclose on a range of issues important to all our stakeholders.
- Continuing to embed our new social value committee with the duty to govern the company's continued focus on best serving Yorkshire.

These measures will help us to take further steps to build trust and confidence in the way we operate.

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Customer Outcome: We provide you with water that is clean and safe to drink

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance# Percentage compliance with legal standards	99.953%	100%	99.962%	100%
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Drinking water quality contacts Number of customer contacts regarding water quality	8,100	≤ 6,108	7,964	≤ 6,108
Drinking water corrective actions# Number of emergency interventions to protect customers	4	≤ 6	5	≤ 6

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

Calendar year measure.

In order to meet this Outcome, we believe we need to maintain excellent drinking water quality and protect raw water quality.

Maintaining excellent drinking water quality

Customers in Yorkshire rightly expect that the drinking water we supply is of the highest possible quality. Because of this we have set ourselves the aspiration of achieving 100% compliance with the Drinking Water Inspectorate's (DWI) requirements. Achieving this target is a long-term goal and means we will need to make improvements from source to tap. This is measured by calendar year, and in 2018 we managed to achieve an improvement in the overall compliance figure from 99.953% to 99.962%. We did however miss the Performance Commitment target. No 'Water and Sewerage Company' in England and Wales has ever achieved this level of performance, and delivery of 100% compliance is not wholly under the control of the Company.

The year on year improvement was delivered due to fewer samples failing the required standards. In particular, there were fewer samples failing the standard for the key health parameter of lead. There was also a reduction in the number of tastes or odours found in samples collected from properties right across Yorkshire.

The weather conditions in 2018 caused periods of very high demand from customers and these demands resulted in high flows within our water mains. An outcome of the high flows is increased disturbance of the sediments within water mains, and so there was an increase in the number of samples failing the standard for iron.

Achieving further improved performance against this target is a long-term goal and means we will need to make interventions from source to tap. In 2019 we will continue to work with stakeholders to improvement management of the rural environment and reduce the levels of pesticides reaching our raw water sources. We will optimise our dosing of odour suppressing chemicals to prevent the occurrence of unusual tastes and odours. We will learn the lessons of last year to ensure we operate our network to balance both supply to customers and minimising disturbance of sediments. Importantly we will also continue our policy of dosing phosphate based chemicals to prevent deterioration of customer lead pipework, and will replace our own lead pipework in line with our previous commitments.

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Another result of the unusual weather conditions was that we utilised our grid network to transfer water across the region in order to ensure continuous supply to all customers. Sometimes this led to a change in the source of water for some supply areas, which we know some customers can identify as a change in taste. However, these changes were very carefully managed, and customers were kept fully informed. Overall, in a challenging year there were 7,964 contacts from customers regarding water quality. This was a marginal decrease from 8,100 contacts in 2017/18 and represented our best ever performance in this measure. Due to the hot summer months of 2018, a decision was made to temporarily suspend our flushing programme. We believe our performance would have been better than the 2018/19 out turn. For 2019/20, we estimate that we will flush approximately 900 distribution management areas (a third of the network) and we are also expanding our trunk main conditioning programme. We estimate that these initiatives will enable us to out-turn at approximately 7,500 contacts.

We continue to invest in maintaining and improving our water treatment and water supply network across Yorkshire. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs and the measure of particles in the water supplied from our sites. We met each of these targets individually, and our overall performance in 2018/19 continues to be at our target level of “stable”.

During the year we commissioned an upgrade to our water treatment facility that supplies Scarborough, further protecting customers from the potential for pesticides in the raw water supplying this area. In nearby Whitby we also commissioned a new storage tank for treated water, safeguarding the continuous supply of clean drinking water.

We investigate every instance of suspected deterioration of water quality and we share the outcome of our investigations with the DWI and health protection stakeholders. In total there were 31 events investigated in 2018 (2017: 26 events). Many events were associated with third party activity or were the result of private fittings within individual customer properties. However, the high flows in water mains also resulted in an increase in the number of occasions that supply to customers became discoloured. Actions were put in place to prevent recurrence or learn the lessons from each event, but there were five events for which further corrective actions were required after discussion with regulators.

The result for drinking water event corrective actions met the Performance Commitment for no more than six incidents.

Protecting raw water quality

The quality of the water we take from the environment has been deteriorating in some areas over recent decades because of pollution, unsustainable land management practices and climate change. The more polluted raw water is, the more treatment is needed to make it fit for drinking. We respond with a twin-track approach; enhancing water treatment capabilities to ensure high quality drinking water at the customer's tap and addressing problems at source through our catchment management programme.

Peat moorlands are especially important to us because they are the source for a large proportion of drinking water in Yorkshire. The water sourced from degraded peatland requires extra treatment to remove contaminants picked up in the run-off from eroded soils. We work in partnership to maintain and restore parts of Yorkshire's peatland by re-introducing native plants, managing invasive species and blocking man-made drains to slow the water flow and restore the water table. Through our collaborative working, we are increasingly active and effective in peatland management and are growing the amount of land being restored. However, there is also much more to do, by us and others, to fully protect raw water quality.

We also collaborate with the Environment Agency (EA), Natural England and the National Farmers' Union to protect water catchments by developing safeguard zone action plans. We have an agreed programme of work to help address sources of water pollution between 2015 and 2020. This includes working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldehyde slug control pellets. We are also investigating nitrate and other pollutants that present risks to several of our groundwater sources.

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We have started to build on our links with the food and drink supply chain in Yorkshire. Much of our lowland catchments are dominated by agriculture which can have a negative impact on water quality and soils. By developing the collaborative approach we have taken in the uplands, we have launched a unique farmer-to-farmer mentoring trial project which seeks to improve soil health, farm profitability (through reduced pesticide and nutrient use), and improved water quality.

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Customer Outcome: We make sure that you always have enough water

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Water supply interruptions Average interruption per property served, in minutes and seconds	6 minutes, 58 seconds	≤ 12 minutes	10 minutes, 28 seconds	≤ 12 minutes
Leakage Total leakage in million litres per day, MI/d	300.3MI/d	≤ 292.1MI/d	289.8 MI/d	287.1 MI/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	135.9l/h/d	≤ 139.3l/h/d	133.5 l/h/d	138.3 l/h/d

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we need to secure water supplies, reduce the company's own water use, reduce leakage, work with customers to save water, and reform abstraction licences and encourage water trading.

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans, since 1995, and this is despite some very challenging weather including that in 2018 which we describe below. In the year we have maintained “stable” status in the Performance Commitment for the stability and reliability of our water networks. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

The risk of water shortages or supply interruption is a constant priority for us because of the consequences to our customers and operations. Our operational and investment programme includes a range of activities to maintain and enhance services, for example increasing storage in the water distribution network, managing pressure in the network and installing further data loggers to improve our knowledge of how the network operates. Water efficiency is also central to our plans and we describe this below.

We sometimes need to temporarily interrupt customers' water supplies to undertake emergency and planned maintenance. At 10 minutes, 28 seconds, in 2018/19, we have performed better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers. We have targeted this measure as one of our key Performance Commitments to outperform as part of our upper quartile plans, with the intention of being the frontier company by the end of March 2021.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. In the summer of 2018 we experienced a period of hot, dry weather and demand remained high for an unprecedented prolonged period. This led to the crossing of ‘control lines’ in our Drought Plan. These are trigger points which, once reached, result in escalated levels of action to maintain resilient water supplies. We applied for, and were granted, two drought permits to temporarily increase river abstractions limits, however these permit applications were a precautionary measure and we did not need to use them in practice. Our Drought Plan contains several options to tailor our response to the exact

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conditions of any drought as it develops. We learn from each drought and update our Drought Plan accordingly. Our planning enables us to act quickly because options have been assessed for their potential environmental impact and mitigation strategies developed. The two additional options have low environmental impacts and will enhance our current plan.

Our Water Resources Management Plan (WRMP) describes how we will maintain the balance between water supply and demand over the next 25 years. Our new WRMP proposes to reduce leakage by 40%, to reduce the risk of climate change creating a deficit in our supply demand balance.

Our Drought Plan and WRMP can be found at:

www.yorkshirewater.com/resources

In line with our duties under the Water Industry Act 1991, we revise our Drought Plan and WRMP every five years to ensure they reflect the most up to date information and potential risks to security of supply. Each iteration of our plans is subject to a public consultation to allow customers and stakeholders to comment. Our latest plans were published for consultation in January 2018. We expect to publish the final version of our latest WRMP in 2019, and our Drought Plan will be updated and republished for consultation in 2019 to include the two additional options as explained above.

Reducing the company's own water use

We seek to demonstrate leadership in the efficiency of our operational use of water. Our AMP7 Business Plan includes a bespoke Performance Commitment on water recycling. We have identified a number of works that would benefit from some additional alternative treatment practices to either introduce recycling capabilities or improve on existing. The delivery of schemes will start in AMP7 and will reduce our own abstractions.

Leakage

Leakage is the amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. The response to the challenging environmental conditions started in early 2018 and was maintained throughout the 2018/19 reporting cycle with increased resources and improved data analysis. This approach ensured that the Performance Commitment target of 292.1 megalitres per day was achieved with a figure of 289.8 megalitres per day.

The hottest English summer on record consequently resulted in additional ongoing operating expenditure. Yorkshire Water's network was already experiencing significantly higher levels of leakage following the cold weather commonly called the 'Beast from the East,' over the 2017/18 winter period. The summer heat combined with the driest May to July in 2018 across England since 1921, resulted in additional leakage costs attributable to increased find activity and increased number of repair and maintenance jobs.

Plans are now well underway to significantly reduce leakage by 40% by 2025. Having escalated resources to work towards this bold ambition has helped ensure we met our 2018/19 regulatory leakage target despite the challenges mentioned above. During 2019/20 we will be enhancing the use of satellite technology to detect leaks with over 20 additional areas of Yorkshire analysed to add to the one delivered in 2018/19. We have doubled the amount of leakage inspectors to approximately 300, to ensure that more proactive leakage detection is undertaken. 600 network listening devices were installed in 2018 and a further 34,000 will be installed by September 2019 supported by a team of expert analysts to help us utilise the new information that will be provided. The key driver for these new technologies is to improve effectiveness of leakage detection and to achieve our goal of being upper quartile.

Working with customers to save water

We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2018/19 we gave away 18,341 free water saving packs. We also trialled a new water saving initiative offering our "Fit2Save" free home audit and retrofit service to household customers. This was delivered to 400 homes in the Sheffield

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area and we are now offering the service to customers in the Halifax area. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. This has helped us achieve our Performance Commitment for water use, with per capita consumption out turning at 133.5 l/h/d in 2018/19 against a target of 139.3 l/h/d.

We provide a range of water saving advice and support:

- **Free leakage repairs** are offered to our customers for all domestic supply pipes which are not under buildings. In addition, we raise awareness with customers that they are legally responsible for the supply pipes in their property boundary. We also offer advice and support to help customers understand how they can manage their supply pipes. We also offer assistance for repair of any commercial supply pipe leaks.
- **Free water meters** are provided to household customers on request. Meters provide a financial incentive to use less water. Our WRMP forecasts the number of households with meters will increase over the next 25 years, from 50% to 84% by 2044/45. Metering is instinctively an appropriate method of charging for water supply and sewerage services, based on payment for use. However, metering can result in a more expensive bill because of the additional cost of installing and maintaining the meter.
- **Free water saving devices** like tap aerators and shower timers are provided to households, student accommodation and community groups. Our website also includes a link to our contractors' website offering customers the opportunity to purchase a range of water saving products including water butts.
- **Advice and information** is provided through communication campaigns, at events, in our written communications, social media and on our website. We also run education centres for schools and provide information packs for teachers and their pupils.
- **A home audit and retrofit water fitting service** trial will continue aiming to deliver the service to 2,000 to 3,000 customers over the next two years.

More information can be found on the dedicated water efficiency section of our website at <https://www.yorkshirewater.com/savewater>.

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to further improve the country's water efficiency and resilience, for example by making it easier for organisations to buy and sell water from each other. We have traded water with our neighbouring water companies for many years. Currently, we have an import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs.

We have discussed potential future transfers with third parties including neighbouring water companies as part of revision to our Water Resources Management Plan (WRMP). Our draft WRMP19 does not include any new imports and we have not received any requests from other abstractors. In our 2019 WRMP we aim to reduce our leakage by 40% by 2025. This will create a significant surplus in our region, making us robust to climate change risks and creating greater potential for us to offer trades to other abstractors.

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water resources planning, and associated investment to maintain a secure supply of water to our customers. We have produced a Bid Assessment Framework and a Trading and Procurement Code both of which provide potential bidders with information on how to submit a bid and how it will be assessed. This information will enable third parties to submit bids to either supply water resources or provide demand management or leakage services in Yorkshire.

We remain focused on this area to ensure resilience and efficiency in the face of the changing climate and a growing population.

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Customer Outcome: We take care of your waste water and protect you and the environment from sewer flooding

		2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*					
Internal flooding Number of incidents		1,682	≤1,919	1,692	≤1,919
External flooding Number of incidents		9,296 ⁺	≤10,487	9,116 ⁺	≤10,487
Pollution incidents[#] Number of incidents	Category 1 and 2 †	3	≤ 2	11	0
	Category 3 †	202	≤ 211	188	≤ 211
Stability and reliability – waste water networks Improving / Stable / Marginal / Deteriorating		Stable	Stable by 2020	Stable	Stable by 2020

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

[#] Calendar year measure.

† Pollution incident categories are defined by EA as major (category 1), significant (category 2), or minor (category 3).

In order to meet this Outcome, we believe we need to manage overall flood risk and prevent pollution from our network.

Managing overall flood risk

We play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short term incidents and long-term plans. We invest in the region's drainage network to reduce the risk from sewer flooding. For example, we have increased our proactive maintenance of the sewer network in 2018/19 to remove sewer blockages and maintain sewer capacity. Through this activity we were targeting areas where customers have previously experienced a range of issues with the aim that future incidents can be reduced or completely avoided. This has been a coordinated approach with communication campaigns running alongside the onsite activity to inform customers of the causes of issues and the role they can play to improve the situation.

We have invested in sewer network improvements and maintenance and continuously striving to improve the service we deliver to customers. One particularly successful communication campaign was the introduction of the 'Wipesaur,' which is a character that has toured Yorkshire explaining to customers what should and should not be flushed down the toilet or poured down the sink.

We have maintained "stable" status in the Performance Commitment for the Stability and Reliability of our waste water networks. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

In 2018/19, we again achieved our Performance Commitments for internal and external sewer flooding. The number of sewer flooding incidents, both internally and externally, have reduced compared to the previous year.

We continually invest across the region and collaborate with others to reduce flood risk. We provide examples below of some of our progress in 2018/19, with a focus on innovative approaches and community engagement:

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- Yorkshire Water has worked in partnership with Hull City Council, East Riding of Yorkshire Council and the EA as part of the Living with Water Partnership to host the Hullultimate Challenge and Resilience Fair. The Hullultimate Challenge, a water themed urban assault course, was a three-day mass participation event which involved over 2,000 people including more than 1,000 school children. The Umbrella trail and Resilience fair, which were held at community events in the lead up to the main event and ran alongside the Hullultimate, were aimed at engaging the community about whole person resilience and raising the awareness of flooding in Hull and East Riding. These events were supported by 50 public, private and third sector organisations and reached 1.5 million people across a range of channels, including 500,000 people through television, radio and social media across the event weekend.
- In Norton, we completed an undertrack crossing to support the Malton and Norton Multi Agency Flood Plan. This plan was then implemented with our partner agencies including North Yorkshire County Council and Ryedale District Council in early April 2018 to prevent flooding to multiple properties.
- We have shared sewer modelling data with the EA for the Brighthouse Flood Alleviation Scheme to allow the scheme to identify further opportunities for reducing flood risk in partnership.
- We launched a new community engagement programme, Soak it Up, which aims to install sustainable drainage techniques into schools and community areas whilst providing community education. In the first stage of the programme, we engaged over 400 children and over 40 adults in educational workshops and delivered sustainable drainage techniques to five different community locations.
- We launched the 'Blockage Free Challenge' to enable community groups or charitable organisations to bid for funding which they could use locally to help spread the word of our blockages campaign and drive down sewer blockages.
- We have been working with the EA and Defra to examine the use of our reservoirs to help flood management whilst understanding the wider implications that changes in reservoir operation could have on water supply in Yorkshire. Following a trial over the winter of 2017/18, we are now working with the EA to consider options for future investment in reservoirs above Hebden Bridge to further contribute to reduced flood risk.

Preventing pollution from our network

The number of pollution incidents in 2018 (calendar year measure) meant that we achieved our Performance Commitment for Category 3 pollution incidents (190 versus a target of 211 or fewer). However the number was above target for the Category 1 and 2 incidents (Major or Significant) with 11 impacting incidents against a target of two. During 2018 there were zero prosecutions for pollution incidents.

We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents from 2019/20, and challenging Upper Quartile targets to further reduce Category 3 incidents in AMP7.

Our plan to reduce both sewer flooding and pollution incidents to achieve industry-leading performance in the period 2020 to 2025 aims to result in out-performance against these measures during the current five-year investment period (AMP6) and on into AMP7. This will benefit both customers and the environment.

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Customer Outcome: We protect and improve the water environment

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Length of river improved Total cumulative length in kilometres, km	Programme commenced	≥ 440km by 2020	39.61	≥ 440km by 2020
Bathing water quality[#] Number of Yorkshire's designated bathing waters that exceed minimum legal standards	18	≥ 15	17	≥ 15
Land conserved and enhanced Total cumulative area in hectares, Ha	11,492	≥ 11,736 Ha by 2020	11,524	≥ 11,736 Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	96%	Survey and publish figures annually	99%	Survey and publish figures annually
Working with others Number of solutions delivered in partnership with others	12	≥ 3	11	≥ 4

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

[#] Calendar year measure.

† We have reduced the value by 47Hectares (Ha) to reflect that we have removed land we no longer own.

In order to meet this Outcome, we believe we need to reduce pollution and enhance river quality, invest in the region's bathing waters, and manage our land to maximise its potential.

Reducing pollution and enhancing river water quality

We collect, treat and return around one billion litres of waste water safely back to the environment every day. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our waste water quality. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We remain on track in the delivery of our programme of environmental investment which contributes to our Performance Commitment to improve 440 kilometres of river by 2020, with a reported cumulative length of 39.61 kilometres achieved by the end of 2018/19. The majority of our schemes are programmed to complete during 2019/20.

The EA annually completes an Environmental Performance Assessment of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA has classified our 2018 calendar year performance as 'Requires Improvement' with two out of a maximum four stars in their rating system. Our performance in the EA's assessment has reduced on last year, predominantly driven by an increase in serious pollution incidents as discussed in the previous section.

The EA report shows our overall treatment works compliance in the 2018 calendar year to be 97.5%, which is a slight reduction from our performance of 97.8% in 2017.

Six of our 611 waste water treatment works did not meet their discharge permit conditions in 2018, securing 98.0% compliance. This was a reduction in performance compared to 2017 when we had

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five failing waste water works or 98.3% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

We had one failure in 2018 from our 21 water treatment works which have a discharge permit. This is a slight reduction in performance since 2017 but is similar to performance in prior years. We also operate a further 29 water works which do not require a discharge permit.

We also invest to protect the water environment from pollution caused by escapes from our sewer network. We discuss this in the “We take care of your waste water” section of this report on page 19.

Investing in the region’s bathing waters

In 2015, Yorkshire Water completed a £110m investment in key assets along the coastline to lessen the influence that our operations had upon the marine environment. Since then, we have continued to enhance our asset base to ensure its resilience. The table below shows the number of designated bathing waters in Yorkshire which achieved each of the water quality classifications defined by the Bathing Water Directive.

Classification	2016 [#]	2017 [#]	2018 [#]
Excellent	11	5	5
Good	6	13	12
Sufficient	1	0	1
Poor	1	1	1

[#] Calendar year measure.

We have achieved the Performance Commitment to maintain at least 15 beaches at an Excellent or Good legislative standard. 17 of our 19 beaches met these high standards and are going beyond the minimum legal requirement.

2018 has seen all but one bathing water classification remain the same, with Bridlington South moving from Good to Sufficient status. There are many factors for this and we are continuing to work with the Yorkshire Bathing Water Partnership to investigate and implement measures to improve quality in subsequent years. Scarborough South Bay remains Poor for a third consecutive year. We are continuing to work with the EA to investigate this.

Of the eight resort beaches in Yorkshire, one will be able to apply for the coveted “Blue Flag” status in 2019. A Blue Flag demonstrates that the beach complies with a range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met and other organisations also play a key part in achieving this aspiration.

We continue to work closely in partnership to play our part in achieving excellence on Yorkshire’s designated beaches as part of the Yorkshire Bathing Water Partnership.

Managing our land to maximise its full potential

With approximately 28,000 hectares of land, we are one of the three largest land owners in Yorkshire and one of the top 20 largest landowners in the UK.

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,736 hectares of land by 2020, much of which we are delivering in partnership with others. These have varied from longer term work that we have done in specific areas (for example, significant moorland restoration works with Moors for the Future, the HLF Watershed Landscape project, as well as HLF and other projects with the Nidderdale Area of Outstanding Natural Beauty) to the more focussed such as the work we are doing with Natural England to review and assess how we move our Sites of Specific Scientific Interest into favourable condition and the milestones needed to achieve that status. These projects fully align with our overall priorities and objectives for owning land as well as meeting societal objectives expressed through these stakeholder organisations. We have also joined with the National Trust in a ground breaking partnership where we are working together on a range of initiatives aligned to both organisations’ strategic objectives.

In addition, we have continued to work in partnership with others to deliver environmental and biodiversity benefits for our customers and ecosystems. For example, we have been working with the Wild Trout Trust to undertake targeted river restoration work, and also to train local angling

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groups in the use of simple methods by which they can restore and strengthen the ecology in rivers across their area of interest. We continue to work with others to help improve regional biosecurity

and reduce the presence of invasive species, for example, by funding training of River Holme Connections volunteers in the safe use of herbicides, leading to over 20 km of river being managed at a catchment scale, upstream of our assets.

Most of our land not used for operational activities is tenanted to farmers and we have continued to manage our farm tenancies with our “Beyond Nature” initiative delivering multiple outcomes from our land that are tailored to each site. We now have six farms signed up covering over 4,700 hectares. A variety of partnership working arrangements are supporting delivery; Natural England Stewardship agreements, Heritage Lottery Fund grants and joint initiatives with local conservation organisations - as well as Yorkshire Water’s own support.

The tenant on our first and ‘flagship’ Beyond Nature farm – Humberstone Bank, has implemented a range of initiatives to realise the Beyond Nature vision. This includes restoration of traditional hay meadows, the construction of a wildlife and sediment pond, introduction of conservation grazing with a small herd of native cattle, and woodland creation; these are all aimed at significantly enhancing biodiversity, as well as improving water quality and increasing carbon storage capacity. Yorkshire Water has also supported the development of the Humberstone Upland Hub: a converted traditional farm building with the facilities to host conferences, meetings and educational visits. To date the Hub has been used by a range of organisations – mainly with a sustainable land management and conservation focus. Plans are in place to significantly increase the number of educational visits hosted at the Hub.

We are now working on producing more information and guidance for potential tenancies, building partnerships to support implementation and promoting the achievements and lessons that we are learning along the way. Other farms will be signed up soon and we continue to attract national interest from others interested in the concept and “Beyond Nature” will be a key AMP7 Performance Commitment.

The company provides a wide and diverse range of recreational opportunities with open access available to much of our rural estate and over 50 clubs and organisations undertaking their activities on our land and reservoirs. We have a Performance Commitment to survey recreational visitor satisfaction at our sites and to publish the results, with the most recent surveys reporting 99 % of our visitors to be satisfied or better with their experience. A new reception hide at Tophill Low Nature Reserve has won awards for its sympathetic and accessible design helping to underpin a year of activities that has seen the highest number of visitors to the site since it opened. We also received an ‘Accessible Derbyshire’ award for our work with the National Park on the “Miles Without Stiles” project that helps promote accessible routeways giving guidance as to how accessible each route is.

As part of maximising value from our operational land estate, we review land use and opportunities in accordance with our Six Capitals approach. We are working on initiatives that include having bio-gas converted and supplied into the national gas grid, photovoltaic solar energy for direct supply to our operational assets, off-setting of our carbon emissions and using partnership working to manage dormant operational land, for example, Sustainable Urban Drainage assets providing for water storage and ecology improvements in predominantly urban areas.

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Customer Outcome: We understand our impact on the wider environment and act responsibly

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Waste diverted from landfill Percentage of our waste diverted from landfill	99.4%	≥ 95.0%	99.6%	≥ 95.0%
Renewable energy generation Percentage of our energy needs generated by renewable technology	11.4%	≥ 12%	11.3%	≥ 12%

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, it is important that we increase our renewable energy generation and reduce the amount of waste that goes to landfill.

Our approach to understanding our impact on the wider environment and acting responsibly to protect our environment includes managing electricity consumption, reducing waste and greenhouse gas emissions, supporting Yorkshire charities and promoting global safe water, working ethically and responsibly for human rights through our supply chain, and ensuring our colleagues are treated appropriately through a health, safety and wellbeing focus, diversity and gender pay and conducting colleague surveys.

Environment

Turning waste into resource

We continue to advance our work to reduce waste and find innovative ways to take more value from under-used materials and resources such as waste water, sewage sludge and our operational land. Ongoing success in our Performance Commitment to divert almost all our waste from landfill serves to demonstrate our strength in this area.

Our approach is based on collaborative engagement with multiple stakeholders because this enables better opportunities than working alone. We are working closely with local authorities, and community groups, universities and regional development agencies.

Our flagship resource recovery programme is progressing well at Esholt waste water treatment works in Bradford. Here we are embracing the principles of circular economies to help further eradicate waste and take more from under-used resources. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused waste water. In addition, recovery of redundant sludge lagoons next to the River Aire would provide benefits such as reduction in flooding and increased biodiversity.

Managing electricity consumption and costs

We are a large consumer of electricity because it is energy intensive to move and treat water and waste water. Electricity is critical to the resilience of our operations and is one of our largest operating costs. Traditional sources of electricity can also be carbon intensive. To manage these matters, we are producing an increasingly substantial amount of renewable energy, we purchase 100% renewable energy, and we are continually looking for opportunities to reduce the amount of energy we consume.

We increased our energy consumption in the dry winter and warm summer of 2018, from 598GWh in 2017/18 to 620GWh in 2018/19. To ensure resilient water supplies during extreme weather, we

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increase the amount of pumping we undertake through our water grid network to ensure water is available when and where it is needed.

On renewable energy generation, we achieved a four year high in our performance by generating over 70GWh which met 11.3% of our total electricity needs in 2018/19. This progress was not sufficient to achieve our performance commitment to generate 12% of electricity needs, but we expect to achieve this in 2019/20 and beyond following completion of our £72m investment in a new sludge treatment and anaerobic digestion (AD) facility at our Knostrop treatment works in Leeds. This investment will enable a substantial increase in our generation capabilities, and we are well underway in our next investment in another new AD facility at our works in Huddersfield.

During Spring 2019, we installed solar panels on the roof of one of our main office buildings as part of a programme of sustainability improvements at our head office. We are also investigating the potential to introduce a large programme of solar power across our sites.

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our day to day services. It is a priority that we lead by example in reducing our carbon emissions because the public services we provide fundamentally rely on the stable climate, and because we have large a carbon footprint with the energy-intensive nature of our operations.

We are making strong progress on our new and bold commitment to achieve net zero carbon emissions by 2030, with further substantial reductions in 2018/19 that builds on our long term trend. This performance follows our continued investment in renewable energy generation and purchasing. We now only purchase certified renewable electricity. Our ongoing retention of the Carbon Trust Standard provides independent verification of our success in reducing our carbon emissions.

It is a demonstration of our increasing maturity in this area that we have this year expanded our carbon reporting to include both the 'location' and 'market' based methods. In best practice carbon accounting, the market-based method recognises the carbon reductions we support by purchasing only renewable energy, while the location-based approach assumes all purchased electricity has the average emissions of the UK's national electricity grid supply. This later approach supports the continued focus on energy efficiency, no matter how it is generated, because the most sustainable long term approach is to use less. The table below shows our latest carbon performance using a standardised UK water industry tool that follows Government reporting guidelines and uses latest emission factors.

Carbon accounting methodology	Location-based (If electricity has grid-average emissions)			Market-based (If recognise our renewable electricity)
Year	2016/17	2017/18	2018/19	2018/19
Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO ₂ e)				
Scope 1 emissions KT CO ₂ e	65	74	77	77
Scope 2 emissions KT CO ₂ e	211	187	156	0
Scope 3 emissions KT CO ₂ e	31	27	25	11
Total gross emissions KT CO₂e	307	288	258	89
Total net emissions KT CO₂e	307	288	258	89
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO ₂ e)				
Emissions per million litres of water served	263	225	206	N/A
Emissions per million litres of waste water treated	218	235	219	N/A

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving company vehicles, and releasing gasses during treatment processes.

Scope 2 emissions are those indirectly released to the atmosphere through our purchase of national grid electricity to pump and treat water and waste water.

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

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We have achieved dramatic falls in our operational emissions. They are down 80% from 448KT CO₂e in 2004/05 when we first started reporting our carbon emissions, if recognising our purchase of renewable energy using the market-based accounting methodology. Or down 57% if using the

location-based approach which considers all our electricity as if it had the carbon emissions of the average national electricity grid supply.

While we have been successful in making large reductions in our total operational emissions, our Scope 1 (or Direct) emissions show an increasing trend over the last three years. There are a number of reasons for this, with a key contributor relating to our use of gas oil in our incinerator plant in Leeds. However, the incinerator was permanently closed in 2018/19, replaced by the new AD plant which we describe above as our method for managing sewage sludge. This is the latest investment in our strategy to cease all our incineration activity and ensure virtually all the sewage sludge we manage is recovered for its calorific and nutrient value through our renewable energy and land recycling programmes.

In addition to our continued focus on renewable energy generation and energy efficiency, we are increasingly focused on the other areas of our operational carbon footprint that will reduce our Scope 1 emissions. In addition to a focus on gas oil, we are also exploring ways to decarbonise our large fleet by reducing our travel and switching to electric vehicles. We are also amongst the leaders in looking to reduce emissions beyond our direct operational footprint, as we describe below.

Looking beyond our operational greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. This is good for the environment and drives innovative and partnership solutions that deliver new ways to save costs. Through 2018/19 we have consistently measured the carbon in all our capital schemes as they complete. The schemes we have so far completed this AMP are showing a good reduction in embedded carbon. We have been learning from our successes in reducing carbon, for example by using less traditional cements, to help us further enhance our approach to cutting carbon throughout our asset management programme.

We are working to understand our total carbon footprint by considering the emissions throughout our value chain – in our supply chain and in our customers use of water. While we don't have accountability or strong levels of control in some of these broader emissions areas, we recognise that we may be able to enable further emissions reduction beyond our direct operations and capital investment programme. We will be publishing further information on this in the coming months.

Our environmental governance and policy

Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient and effective conduct of our business. Central to our environmental governance and risk management is our ISO 14001 accredited Environmental Management System. We have been continually accredited to the ISO 14001 standard since 2004 and we are now preparing for the upcoming changes to the standard. Environmental performance is reported through our website which is regularly updated. This can be viewed at: www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment.

Communities

Supporting communities through charitable giving and volunteering

We challenge ourselves to “make a difference” to the quality of people's lives over and above the provision of high quality water and waste water services.

Yorkshire Water's established community programmes provide support through voluntary time-giving and help-in-kind to a wide variety of different individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which we operate.

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Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. In preparation for our future commitment to deliver 20,000 learning hours, we have been increasing our education provision throughout the year. We had 7,507 visitors during 2018/19 (2017/18: 7,163) and delivered outreach programmes to 9,252 young people and adults (2017/18: 8,569).
- Our volunteering programme “Hands Up” comprises initiatives enabling employees to choose from a variety of opportunities, such as providing support to organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB, and supporting STEM awareness in schools.
- Our ‘Soak it Up’ campaign works with communities and schools to encourage residents and pupils to think about how small actions can contribute towards a reduced risk of flooding. We partnered with Yorkshire Wildlife Trust on a pilot project during the summer of 2018 working with five schools and community organisations to raise awareness and install small scale Sustainable Drainage Systems which could be replicated in the wider community. Such was the success of the pilot, that we are now working with a further twelve schools during the 2018/19 academic year.
- In October 2018 we introduced an industry first ‘Industrial Cadets’ work experience programme which is accredited by the Engineering Development Trust. A total of 26 young people undertook a week-long course during their school holiday and learnt about the wide range of work undertaken by the business.

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Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our industry-leading strategic partnership with WaterAid that is delivering knowledge sharing on water and sanitation, providing infrastructure support and much more. Our aim was to raise £1 million for WaterAid over five years to support projects that will transform lives in Ethiopia, and this ambition was achieved earlier in 2019. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience and a youth engagement programme to raise awareness in schools.

Our people

Working ethically and respecting human rights

Our Human Rights Policy recognises international human rights, as set out in the Bill of Human Rights and the principles described in the UN Global Compact. The policy can be found on our group website at: www.keldagroup.com/corporate-governance/kelda-group-policies/

It is a fundamental policy of Yorkshire Water to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found on our group website at: www.keldagroup.com/corporate-governance/kelda-group-policies/

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls including the requirement that all suppliers will abide by our Living Wage Commitment. In compliance with the Modern Slavery Act 2015 we publish annual statements. Our latest statement can be found on our website at:



<https://www.yorkshirewater.com/about-us/what-we-do/modern-slavery-act.>

Ensuring responsibility throughout our supply chain

We are committed to promoting a supply chain that delivers the long term provision of great value and highly resilient services to our customers. Our ambition is to work in collaboration with our suppliers to responsibly address existing and emerging social, economic and environmental challenges, both locally and globally.

Our Sustainable Procurement Strategy outlines our priorities through to 2025 with an emphasis on health & safety, modern slavery and carbon. We have enhanced our capabilities in health & safety auditing and supply chain carbon assessments and we will be exploring similar opportunities during 2019/20 in the fight against modern slavery in all its forms as we do not currently audit our suppliers against this risk. Further information can be found on our website at:

<https://www.yorkshirewater.com/sites/default/files/Final%20Supply%20Chain%20Strategy%20-%20website.pdf>

Although the majority of our supply contracts are with UK or European entities, we recognise that our supply chains extend into emerging economies and developing countries where child and forced labour may be present. We therefore reserve the right to audit at any time. Our latest supply contracts and purchase order terms oblige all suppliers to comply with the Modern Slavery Act 2015, which includes the abolition of human rights abuse in all its forms. At present we estimate that over 90% of our supplier contracts will include the Modern Slavery clause.

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Health, safety and wellbeing

During 2018/19 we made significant progress in implementing our Health and Safety Improvement Plan, which is key in realising our Health and Safety vision of: “Everybody, Every Day, Safe and Well, and We Know It”.

The plan is over 90% complete, with initiatives focussing on personal, process and infrastructure changes to ensure that the health, safety and wellbeing of colleagues and other stakeholders is maintained and not compromised by our activities. The plan was put in place in 2016 and has been completed in order of risk priority. The key plan objectives are to:

- Mature our health and safety culture through sustained leadership and colleague engagement;
- Ensure colleagues are trained and competent to do their jobs safely;
- Consistently identify and manage our health, safety and wellbeing risks;
- Improve the safety of our assets;
- Embed process safety policies and practices;
- Manage the health, safety and wellbeing risks of our suppliers and contractors; and
- Ensure effective health, safety and wellbeing communications.

In occupational safety, we achieved our Lost Time Injury Rate (LTIR) target of 0.34; this is based on the number of injuries resulting in time off work per 100,000 hours of work. In achieving this target, we reduced the number of colleagues injured at this level by 30%. We rolled out an enhanced Control of Work process and introduced Human Factor considerations into equipment and asset design. In process safety, we continued our focus on our higher hazard assets with the introduction of enhanced procedures, investigations and key leading and lagging performance indicators.

In health and wellbeing our focus on mental health continues, and we have now trained around 850 colleagues as Mental Health First Aiders. They are equipped to recognise the early signs of mental health problems in colleagues, leading to early intervention and support from our in-house Occupational Health team. We believe this initiative has significantly contributed to a reduction in the number of colleagues that need to be referred for further professional support, such as external counselling.

Looking ahead to 2019/20, we will continue to focus on embedding our key processes such as Life Saving Rules, Fair Culture and Control of Work, with the aim of reducing injuries and increasing the number of Safe Days across the organisation. We also plan to achieve external accreditation to ISO45001, the International Health and Safety Management System standard.

Our health and safety strategy and plan continue to be fully aligned to our overall business strategy and are key in continuing our journey in terms of maturing our health and safety culture, reducing operational risk and meeting our stakeholder needs.

Attracting great people and maintaining the skills we need

We recognise that our people are our most important asset and are striving to make our workforce as resilient as we can to ensure our success, both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with a fair wage and reward package. In 2018/19 we have:

- Expanded our apprenticeship offering from 110 as of March 2018 to 124, with a planned intake of 51 more internal and external apprentices in September 2019, maximising our usage of the Apprenticeship Levy and anticipating future needs based on our expected skills gaps and potential risk of lost knowledge due to retirement;
- In our graduate programme, we have continued to develop our eight graduates ready to complete their programme in August 2019, with nine more graduates recruited for a September 2019 start; and
- Developed operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role.

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Championing diversity

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March for the last three years:

Gender	Male			Female		
	2019	2018	2017	2019	2018	2017
Statutory directors	8 (80.0%)	8 (66.7%)	6 (60.0%)	2 (20.0%)	4 (33.3%)	4 (40.0%)
Senior managers	20 (69.0%)	18 (72.0%)	16 (69.6%)	9 (31.0%)	7 (28.0%)	7 (30.4%)
Total employees	2,357 (76.9%)	2,086 (75.9%)	2,021 (75.3%)	710 (23.1%)	661 (24.1%)	662 (24.7%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Statutory directors	10 (100%)	12 (100%)	10 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	20 (69.0%)	23 (92.0%)	21 (91.3%)	3 (10.3%)	2 (8.0%)	2 (8.7%)	6 (20.7%)	0 (0.0%)	0 (0.0%)
Total employees	2,429 (79.2%)	2,211 (80.5%)	2,153 (80.2%)	150 (4.9%)	140 (5.1%)	113 (4.2%)	488 (15.9%)	396 (14.4%)	417 (15.5%)

Age	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	2019	0 (0.0%)	0 (0.0%)	2 (20.0%)	4 (40.0%)	4 (40.0%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	2 (16.6%)	5 (41.7%)	5 (41.7%)	0 (0%)
	2017	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (30.0%)	5 (50.0%)	2 (20.0%)
Senior managers	2019	0 (0.0%)	0 (0.0%)	12 (41.4%)	14 (48.3%)	3 (10.3%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	10 (41.7%)	13 (54.2%)	2 (4.1%)	0 (0.0%)
	2017	0 (0.0%)	0 (0.0%)	11 (47.8%)	10 (43.5%)	2 (8.7%)	0 (0%)
Total employees	2019	274 (9.0%)	865 (28.0%)	690 (22.5%)	770 (25.2%)	456 (14.9%)	12 (0.4%)
	2018	195 (7.1%)	693 (25.2%)	679 (24.7%)	745 (27.1%)	419 (15.3%)	16 (0.6%)
	2017	174 (6.5%)	667 (24.9%)	670 (25.0%)	740 (27.6%)	414 (15.4%)	18 (0.7%)

We strive to be as diverse as the community we serve, inclusive of all. Diversity and inclusion provides business benefits and supports social cohesion. Examples of activities we are doing in this area are:

- We hold the National Equality Standard and have an action plan that is linked to the feedback from it, as well as the overall company strategy and objectives.
- We have published the Workforce Diversity report, capturing the ethnicities, gender and disability of our workforce. This shares the company's position with the rest of the business and areas that we need to work on. We have also published our ethnicity and gender pay gap reports.
- We are members of a Business Disability Forum; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability. The colleagues that used it in 2018 received help in putting together some amendments to our Reasonable Adjustment Policy.

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- We are part of the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity.
- We are members of the Energy Utility Skills partnership and together with other members we have made an inclusion commitment which aims at highlighting the sector's commitment to diversity and inclusion.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and public sector. The Forum comes together to share best practice.
- The company has a big role to play in addressing skills shortages, particularly when it comes to the Science, Technology, Engineering and Mathematics (STEM) subjects. The company proactively supports national Women in Engineering week by running a number of events with girls from local schools. The company has invested in a STEM focused development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this AMP. We currently have 19 registered STEM ambassadors and 27 prospective and interested colleagues.
- We have continued to invest in female development leadership programmes to address the under-representation of females in leadership roles. There is a current third cohort of 20 women on the leadership programme, which they completed in June 2019.

Members of the previous cohorts have been very successful within our business and have a strong support network in place.

- A director sponsored diversity and inclusion steering group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, each with a prioritised area of focus, these are gender, ability, LGBTQ and ethnicity. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and corporate social responsibility, supporting us to become a more diverse and inclusive employer and better reflect our customer base.
- We continue to partner with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. In 2018/19 at least three colleagues from Lighthouse joined Yorkshire Water on employment contracts after completing their internship. We are working with the business to see where we could provide further internships for 2019/20.
- We created a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, undertake placements and study.
- We will be running a reverse mentoring programme in 2019/20 that will allow colleagues from different backgrounds in the business and different levels to share experience and understand each other's lived experience and therefore support our commitment to inclusion.
- We are currently reviewing our internal recruiting process and planning to test out different ways to expand our inclusion as a company, including encouraging flexible working and job shares, for example.

Gender pay gap

We started reporting information on the gender pay gap in 2015. Since then, we have seen the development and implementation of The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and we have published our gender pay gap data, in line with the Regulations, for Yorkshire Water, as summarised below.

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Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2018	4.7%	6.2%	-2.8%	0%
2017	4.8%	4.7%	-10%	0%

Receiving bonus

Year	Females	Males
2018	92.6%	91.1%
2017	98.1%	96.8%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2018	19.0%	81.0%	23.6%	76.4%	22.1%	77.9%	28.9%	71.1%
2017	22.0%	78.0%	23.6%	76.4%	22.5%	77.5%	30.6%	69.4%

Further information about our gender pay gap and the action we are taking to address it can be found on our website at:

https://www.yorkshirewater.com/sites/default/files/730760_YWS_Gender%20Pay%20Gap_Web_A4.pdf

Ethnicity pay gap

Following the McGregor Smith review in 2017 we reported our Ethnicity Pay Gap data for the first time in March 2019, which was for the calendar year 2018. We were the first water and sewerage company to do so:

2018

	Mean hourly pay	Median hourly pay
Employees	£18.75	£18.10
White employees	£18.78	£18.21
BME* employees	£18.22	£17.10
General pay gap	3.0%	6.1%

*Black, Asian and minority ethnic

Further information about our ethnicity pay gap and the action we are taking to address it can be found on our website at:

<https://www.yorkshirewater.com/about-us/newsroom-media/workforce-diversity-report-2019>

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Customer Outcome: We keep your bills as low as possible

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	28,853	Publish figures annually	31,606	Publish figures annually
Cost of bad debt to customers Percentage of the average customer's bill	3.10%	≤ 3.16%	3.02%	≤ 3.16%
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	76% water 79% waste water	Average 2015-20 performance to be better than average 2010-15 performance.	77% water 79% waste water	Average 2015-20 performance to be better than average 2010-15 performance.

In order to meet this Outcome, we aim to keep bills as low as possible by managing customer debt, our financial performance, investment programmes, borrowing requirements, financial risk and corporation and other taxes.

Ensuring affordable water services and managing customer debt

We know that affordability is a key concern in Yorkshire. Most customers cannot choose their water company, so it is essential that we provide our services as efficiently as possible so that our customers get value for money and feel that our bill is affordable.

The price of our bills has always been, and remains, a top priority for our customers. Our average household bill is below the national average at £387 in 2018/19.

Our affordability strategy is a simple one, we:

- Keep bills affordable for customers and free them from worry.
- Innovate to deliver services efficiently.
- Deepen our understanding of customers' needs, allowing us to anticipate them.
- Prevent customers from falling into debt by knowing their individual circumstances.
- Deliver prompt and meaningful support when it is needed.
- Where debt occurs, help get customers back on their feet as quickly as we can.

We offer financial help through a broad range of support schemes. We have further increased the number of customers we help through our support packages, up from nearly 29,000 customers in 2017/18 to 31,606 in 2018/19. By March 2020 we aim to increase this number to 40,000.

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16 per cent of the average bill. In the year we have maintained our leading approach to debt management, this cost being 3.02 per cent of the average bill in 2018/19. This calculation is stipulated by Ofwat and therefore does not include the accounting adjustment made to the bad debt charge explained in note 1 to the financial statements.

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Each year, the Consumer Council for Water (CCW) survey water customers about perceived value for money. Latest results show that 77 per cent of customers agreed our water service was “value for money”, and 79 per cent for our waste water service. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

Kelda Water Services Limited (KWS)

Following a strategic decision by the company to seek to dispose of the non-regulated businesses, the sale of two of the KWS businesses were completed in the reporting period. Kelda Water Services (Grampian) Limited and Aberdeen Environmental Services Limited were sold in December 2018.

The profit on disposal of £5.7m has been recorded as an exceptional item, the details of which can be found in note 6. The results for these companies to the date of disposal have been presented within discontinued operations.

Loop Customer Services Management Limited (Loop)

Loop's principal business is the provision of customer management services to YW, which includes billing and debt recovery. The changing economic climate can, therefore, have a major impact on Loop's activities.

Loop also provides a contact centre service to Yorkshire Water. Failures of service by Yorkshire Water or severe weather conditions can also have an impact on Loop's operational call volumes. This may impact on Yorkshire Water's performance in Ofwat's service incentive mechanism (SIM) which benchmarks and rewards companies' customer service.

Loop also contributes to the delivery of Yorkshire Water's customer objectives “We keep your bills as low as possible” and “We provide the levels of customer service you expect and value” through the six associated performance commitments, in the “we keep your bills as low as possible” and “we provide the level of customer service you expect and value,” chapters.

The development framework for all employees has been embedded, giving structure to the reward and the development of our colleagues. Loop has retained Great Place to Work accreditation from Best Companies, which was based on colleague feedback and the Investors in People Bronze standard. This has been supported by strong Kelda Voice engagement scores during the year.

Engaging colleagues has been a key initiative and will remain a focus in the coming year. Health, safety and wellbeing performance has continued to improve. Loop have supported the Kelda Life Saving Rules programme and several well-being projects have been implemented over the year, ensuring that health, safety and wellbeing is at the heart of the company culture.

Keyland Developments Limited (Keyland)

During the year, Keyland's activities centred on bringing forward residential and industrial sites through the statutory planning system to meet market demand.

The Keyland business continued to focus on maximising the value of property assets released by Yorkshire Water, with the current year's results being derived primarily from the sale of two larger sites for residential development. In addition, Keyland has continued to secure further opportunities by working with third-party landowners seeking to bring forward potential development sites.

Keyland continued to make progress on a number of joint venture projects, which control strategic residential development sites around Leeds.

Keyland's primary operating strategy continued to be to maximise value from properties and land released by Yorkshire Water.

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The main risks to Keyland were:

- the quantity and type of sites becoming available for transfer from Yorkshire Water;
- the fluctuating market conditions, which affect the value of land; and
- changes, unpredictability and delays in the planning system.

Looking forward, Keyland will continue to concentrate on securing an adequate supply of sites from Yorkshire Water, whilst also promoting sites on behalf of other major landowners.

Kelda Transport Management (KTM)

The principal activity of KTM is to comply with the Goods Vehicles (licencing of operators) Act 1995 to demonstrate continuous and effective management of two operating licences (Yorkshire and North-West England) for Large Goods Vehicles (LGV) allowing Yorkshire Water to operate LGV whilst promoting operating efficiencies.

As per the undertakings of KTM's operating licence, all legal and statutory documentation have transferred from Yorkshire Water. The company can demonstrate independence of Yorkshire Water. Three appointed transport managers are in place with two appointed board directors supported by a company secretary.

Both operating licences are recording blue statuses (full compliance) within the Traffic Commissioners Office OCRS (Operators Compliance Record Score). In January 2018 the company achieved the DVSA (Driver Vehicle Standard Agency) Earn Recognition Accreditation and the FTA (Freight Transport Association) Truck Excellence for compliance and management of its operating licences.

Three Sixty Water Limited (TSW) and subsidiaries, collectively (TSWG)

The UK Water Act 2014 (UKWA) established the framework to create a market that allows 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater services from April 2017. Non-Household Retail (NHHR) services include services such as billing and customer services. The sale of the NHHR customer base is expected to be completed during the 2019/20 financial year to Business Stream, a division of Scottish Water.

The TSWG comprises three elements:

- TSW, which has a Water and Sewerage Services License (WSSL) obtained under the UKWA, has a small number of customers previously held by the Group under the large user provisions. Additionally it provides shared services to its two subsidiaries. TSW is not seeking any new customers under its WSSL.
- Three Sixty Water Services Limited (TSWS), which provides NHHR services to a small number of Scottish customers under a Water Supply License (WSL) obtained from the Water Industry Commission for Scotland. TSWS also provides a range of non-regulated Added Value Services (AVS), such as flow metering, to customers in the Yorkshire Water service area and elsewhere in the UK. TSWS is not seeking any new customers under its WSL and is no longer marketing AVS.
- Three Sixty Water Yorkshire Limited (TSWY), which provides customer service, customer retention, billing, cash collection, debt management and supply payment services to
- Yorkshire Water Business Services (the NHHR element within Yorkshire Water). In providing these services TSWS manages support service provision by other group companies, such as Loop, as well as providing management resource and specialist skills.

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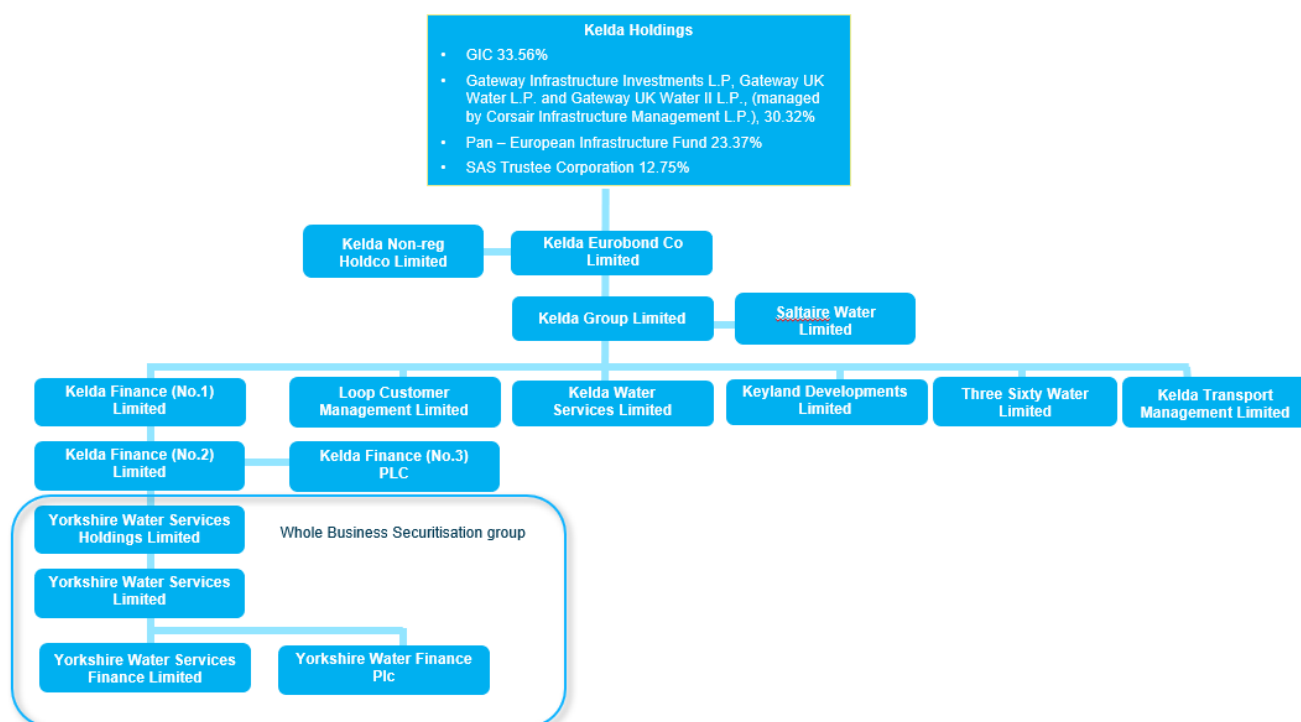
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Our corporate structure

The diagram below shows a summary of the active companies within the Kelda Group. All companies are wholly owned unless stated otherwise. Details of the group's shareholders and capital structure are also published on the group's website, found at this link: www.keldagroup.com/corporate-governance/.

Kelda Group corporate structure at 31 March 2019



Summary of Group company activities

The details and activities of the companies within the condensed group structure chart above are as follows:

Kelda Holdings Limited – the ultimate parent undertaking for the group. Whilst the company is incorporated in Jersey, it is wholly and exclusively resident for tax in the UK. The company was incorporated in Jersey because Jersey law allows greater choice than the UK as to the way distributions can be made to shareholders.

Kelda Eurobond Co Limited – a group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. It was incorporated for the purposes of issuing bonds as part of the acquisition of the shares of Kelda Group Limited (formerly Kelda Group plc) by the shareholders in 2008. This bond debt meets the eligibility requirements of the “quoted Eurobond exemption”. All bond debt issued by Kelda Eurobond Co Limited is held by the shareholders of Kelda Holdings Limited.

The bonds issued by Kelda Eurobond Co Limited are listed on The International Stock Exchange in the Channel Islands (TISE). TISE is regarded by the UK's HMRC as a recognised stock exchange for the purposes of the quoted Eurobond exemption. Listing on TISE was chosen rather than the London Stock Exchange (LSE) for ease of administration; since the bonds in question are not traded, the greater administrative requirements imposed by the LSE are not necessary.

Kelda Non-reg Holdco Limited – a group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company's primary activity is to provide finance for Kelda Group's businesses other than Yorkshire Water.

Saltaire Water Limited – this was the acquisition vehicle for the purchase of Kelda Group Limited's shares (formerly Kelda Group Plc) in February 2008. The shares of Kelda Group Limited are now

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held by Kelda Eurobond Co Limited. The company was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

Kelda Group Limited – originally the ultimate holding company in the group and formerly a public listed company. It was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK. The shares were acquired and the company de-listed in February 2008.

Other active Kelda businesses

Following the strategic review conducted during the year ended 31 March 2017, the majority of non-regulated businesses outside of Yorkshire Water have been divested. This action has enabled us to enhance the leadership of the Yorkshire Water business by removing potential distractions that arise from other parts of the group. This has allowed greater simplification of the Kelda Group structure.

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

- **Three Sixty Water Limited** – offers water and waste water retail and added value services to non-household customers across the UK. The non-household retail business is expected to be sold during the 2019/20 financial year.
- **Keyland Developments Limited (Keyland)** – manages the Group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- **Kelda Transport Management Limited** – provides operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.
- **Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC** – these companies were incorporated to issue debt and raise loan financing facilities outside of the Whole Business Securitisation (WBS) Group, described below. They are all incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.
- **Yorkshire Water Services Holdings Limited** – incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company is the immediate holding company of Yorkshire Water Services Limited.
- **Yorkshire Water Services Limited** - incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in Kelda Group, providing water and waste water services to the Yorkshire region.
- **Yorkshire Water Finance Plc, Yorkshire Water Services Finance Limited** – both incorporated in England and Wales and wholly and exclusively resident for tax in the UK. Both companies are within the Whole Business Securitisation (WBS) described below. Yorkshire Water Finance Plc is the finance company for debt issued after the introduction of the WBS. Yorkshire Water Services Finance Limited is the legacy finance company for debt issued prior to the introduction of the WBS.

Whole Business Securitisation

Yorkshire Water established a financing structure known as a WBS in 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case.

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

In 2018 Yorkshire Water took steps to remove its Cayman Islands incorporated, and wholly and exclusively UK tax resident, financing subsidiaries. Following Ofwat consent, Her Majesty's

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Revenue & Customs (HMRC) clearance, rating confirmations and secured creditor consent, on 16 August 2018 a new UK incorporated financing subsidiary, Yorkshire Water Finance PLC (YWF),

replaced the Cayman Islands subsidiaries by being substituted as the issuer of approximately £3 billion of listed bonds and private notes. On 17 August 2018, the now dormant Cayman Islands companies were transferred from Yorkshire Water ownership to our parent company, Kelda Group Limited and have been placed into liquidation. We explain our corporate structure on page 36.

Delivering and governing our investment programmes

Our Board Investment Committee (BIC) uses delegated authority from the Yorkshire Water board to govern the effective and efficient delivery of our investment programmes and deliver best value for customers and the business.

Capital expenditure for 2018/19 was £500.5 million (2018: £446.6 million). Year four of the current five-year AMP reports an underspend of £25.7 million against the business plan programme. This is largely due to the rephasing of projects, aimed at achieving upper quartile status in the water sector, into year five of the AMP. A further £12.7 million (2018: £18.4 million) of additional capital expenditure was incurred in 2018/19 relating to the 2015 flood remediation.

Managing and governing our borrowing requirements

Treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the Group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central treasury department.

Our operations are financed through a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised by the treasury team in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (see page 37), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis.

Any cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A-/A-/A3 and a short-term rating of at least A1/F1/P1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we:

- Raised £275 million of debt in the form of bilateral loan facilities and private placement notes for tenors ranging between ten and twenty years;
- Extended by one year to October 2023 the maturity date of the £560 million revolving credit facility with a syndicate of eight banks; and
- Renewed liquidity facilities in March 2019, with seven banks, which the Kelda Group is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £279 million to £274 million.

Total borrowings of the group, were £6,868.7 million as at 31 March 2019 (2018: £6,590.5 million). Net debt (total borrowings net of cash in hand and at the bank) was £6,798.6 million at 31 March 2019 (2018: £6,500.8 million). The maturity profile of our borrowings and further detail on net debt are set out in note 21 of the Financial Statements.

£450 million of debt financing has been raised in accordance with our Sustainable Finance Framework, including a £350 million, 22 year bond issued in April 2019.

As at 31 March 2019, Yorkshire Water's Regulatory Capital Value (RCV), which is one of the critical components for setting customers' bills, was £6,686.6 million (2018: £6,446.3 million).

Gearing (being net debt as a percentage of RCV) is a key covenanted ratio within Yorkshire Water's financing arrangements and levels of gearing are monitored and forecast on a regular basis. On a covenanted basis at 31 March 2019 Yorkshire Water Financing Group's gearing was 76.6 % (2018:

75.6 %). The movement in gearing during 2018/19 reflects the impact of exceptional costs resulting from exceptional weather conditions and the annual rate of inflation, as measured by the Retail Price Index, falling to 2.4% at March 2019.

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Managing financial risk

The operation of the Treasury team is governed by policies and procedures, which set out guidelines for the management of interest rate risk, foreign exchange risk, exposure to fluctuations in the rate of inflation and the use of financial instruments. We actively maintain a broad portfolio of debt, diversified by source and maturity, designed to ensure we have sufficient funds available for operations. Treasury policies and procedures are incorporated within our financial control procedures.

The long-term sustainability of the company's financing is of primary importance. We frequently monitor levels of debt and associated measures, such as gearing. These are forecast not just against levels defined in our financing documents, but also against levels needed to protect our credit ratings. These take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions, not just over the current regulatory price review period, but also future price review periods. We have provided more information about our credit ratings below.

Our leadership team receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

Our operations expose us to a variety of financial risks that include the effects of changes in debt and loan market prices, inflation, liquidity, interest rates and exchange rates. Derivative financial instruments, including cross currency swaps, interest rate swaps, and forward currency contracts are employed to manage the interest rate and currency risk arising from the debt instruments used to finance our activities.

Our revenues are closely linked to the underlying rate of inflation, currently measured by the Retail Price Index (RPI) and fluctuate with changes in the rate of inflation. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits. This risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

Interest received is based on the six-month London Interbank Offered Rate (LIBOR), and interest is paid at fixed amounts plus Retail Price Indexation (RPI). Movements in RPI are also applied to inflation linked debt by increasing the amount to be repaid at maturity. Therefore, the impact of RPI reductions on income and RCV is mitigated by reduced interest charges and lower value of inflation linked debt used in calculating gearing as a percentage of RCV.

The maturity dates of the group's portfolio of inflation linked swaps ranges from 2026 to 2063. In July 2018, the group completed a transaction to restructure swaps with a notional value of £374.1 million. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5 million and to increase interest receivable by £10 million for two years, £5 million received semi-annually from August 2018, and to reduce net interest by £21.1 million for ten years, with £10.6 million received on a net basis semi-annually from August 2020.

In March 2019, the group completed an inflation swap transaction with a notional value of £225.5 million, which results in a bespoke RPI floor from Yorkshire Water to its bank counterparty for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counterparty, thereby allowing both parties to reduce their counterparty exposures.

With long-term expectations of LIBOR at continuing low levels, the swaps held by the company gave rise to a negative fair value at 31 March 2019 of £1,976.9 million (2018: £1,702.1 million). See note 21 of the Financial Statements for more details on the financial derivatives held by the company.

Other financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Currently, wholesale energy costs are fixed until 2020 due to action taken in 2015/16 and steps have been taken to start to fix costs in AMP7 with new forward contracts and hedge transactions for 2020/21.

In addition to the above financial management measures, our Insurance team also works to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

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Credit ratings

Yorkshire Water Services Limited and its financing subsidiaries have credit ratings assigned by three rating agencies. The latest published ratings are as follows:

Credit rating Agency	Class A rating	Class B rating	Corporate Family Rating	Date of publication (latest available)
Fitch	A (negative)	BBB+ (negative)	N/A	February 2019
Moody's	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	February 2019
S&P	A- (stable)	BBB (stable)	N/A	May 2019

On 22 May 2018, Moody's issued an update for the water sector following an Ofwat consultation published on 26 April 2018. This consultation included finance cost sharing proposals particularly relevant to companies with gearing more than 60% of RCV. Whilst Moody's amended the outlook for four UK water groups from stable to negative, there was no change to the Corporate Family Rating of Yorkshire Water or the Yorkshire Water Financing Group's Class A and Class B rating.

On 11 February 2019, Fitch published an update without any change to credit ratings but a revision of outlook to negative. The change in outlook reflected Fitch's concerns on Yorkshire Water's financial profile though AMP7 when reviewed against Fitch's rating guidance that had been updated in July 2018.

On 21 February 2019, Moody's published an update of its credit opinion without any change to credit ratings or outlooks.

On 31 May 2019, S&P published an update of its credit opinion without any change to credit ratings or outlooks.

The credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water Services Limited and the other companies within the Yorkshire Water Financing Group can be found on our group website at www.keldagroup.com/investors/.

The Kelda Finance group of companies have credit ratings assigned by two rating agencies. The latest published ratings are as follows:

Credit rating Agency	Company	Senior Secured Rating	Date of publication (latest available)
Fitch	Kelda Finance (No.2) Ltd	BB+ (negative)	February 2019
S&P	Kelda Finance (No.3) plc	BB- (negative)	May 2019

On 11 February 2019, Fitch published an update without any change to credit ratings but a revision of outlook to negative stating, amongst other things, that Yorkshire Water's recently announced plan to de-lever the operating company through refinancing some of its debt at the holding-company level is credit-negative for Kelda.

On 31 May 2019, S&P published an update of its credit opinion affirming the rating of Kelda Finance (No.3) plc whilst revising the outlook to negative from stable. In its publication S&P stated that, amongst other things, the combination of a potential for additional debt at the Kelda level that will be used to reduce the gearing at the Yorkshire Water, together with a current refinancing risk in relation to the maturity of £200 million bonds, due February 2020, led to S&P revising their outlook.

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The credit rating reports for all the rating agencies that assign credit ratings to the Kelda Finance companies can also be found on our group website at www.keldagroup.com/investors/.

Corporation and other taxes

We are committed to acting with integrity and transparency in all tax matters. Our tax strategy and policies require that we:

- Comply with both the letter of UK tax law and its application as it was intended.
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law.
- Do not enter into transactions that have a main purpose of gaining a tax advantage.
- Make timely and accurate tax returns that reflect our fiscal obligations to the Government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for non-tax driven decisions and all active companies in the Kelda Group are wholly and exclusively resident for tax purposes in the UK.

We work openly and proactively with HM Revenue & Customs (HMRC) to maintain an effective working relationship. Each year we provide our tax returns to HMRC and they review our position. In cases which are complex or open to interpretation we work proactively with HMRC to determine the appropriate tax position.

The Kelda Group tax strategy summarises the Group's approach to tax risk management and governance arrangements, and is publicly available at:

www.keldagroup.com/corporate-governance/kelda-group-policies/

Corporation tax

Our corporation tax credit on continuing activities of £40.6m (2018: charge of £9.5m) is mainly due to the non-cash movement in the deferred tax provision.

The deferred tax provision represents the temporary differences between the carrying value of assets/liabilities in the Group's accounts and their tax carrying value in tax returns. This is calculated at the prevailing rate of corporation tax. Differences due to timing will reverse in the future so the provision becomes taxation payable. Other differences are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2018/19 and 2017/18 movements are largely due to the effects of:

- differences between the accounting and tax carrying value of capital assets as they are depreciated for accounts purposes at a different rate compared to in the Group's company tax returns; and
- changes in the fair value liability of Yorkshire Water's inflation linked swap portfolio (explained below).

Increases or reductions in the fair value liability of Yorkshire Water's inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation linked swaps in future years.

Changes to the fair value of the liability are not tax deductible or taxable under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid.

Whilst the fair value of the inflation linked swap portfolio has a carrying value in the group's accounts, there is no associated tax base as changes in the fair value are not tax deductible. The

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fair value of the inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

A full reconciliation of the group's tax credit for the year is contained in note 9 to the financial statements.

The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & Customs' agreement of the basis on which the group's tax returns are filed. In assessing these tax uncertainties, management is required to make judgements, evaluating the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that will be necessary to provide. The nature of the group's uncertain tax positions can relate to complex tax legislation that can be open to interpretation. Original estimates are always refined as additional information becomes known. Any uncertain tax positions are assessed using internal expertise, experience and judgement together with assistance and opinions from professional advisors. There are no current material uncertainties.

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Our financial performance

	2018/19 performance	2017/18 performance
Revenue Income receivable for services provided	£1,063.9m	£1,013.3m
Operating (loss)/profit Revenue less operating expenses	(£115.1m)	£288.1m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation - Reconciled to Operating Profit below	£576.3m	£583.7m
Net (liabilities)/assets	(£622.3m)	£27.3m
Net debt^{#1} Borrowings less cash	£6,798.6m	£6,500.8m

^{#1} Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation and discounted cashflow - please see note 21 of the Financial Statements for more details.

Below we explain the highlights of our financial performance, which are consistent with our business plan.

- The increase in revenue to £1,063.9 million (2018: £1,013.3 million) is largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £1,179.0 million (2018: £725.2 million) are in line with plan except for increased operating costs relating to extreme weather conditions experienced during the year and the impairment of goodwill, some of which have been classified as exceptional, see below.
- Exceptional costs of £378.7 million are associated with the impairment of goodwill, extreme weather conditions experienced during the year, operational mitigation for assets damaged in the 2015 floods, and legal and professional fees incurred in connection with the sale of the non-household retail business, and the profit on disposal of the KWS businesses. More information can be found in note 6.
- The above movements in revenue and operating costs result in a decrease in adjusted EBITDA to £576.3 million (2018: £583.7m million).
- The net interest payable has increased to £571.0 million (2018: £353.2 million). This was a result of adverse fair value movements. Fair value adjustments total a net £251.3 million expense in 2018/19 (2018: £41.4 million net income). This is largely due to the movement in fair valuation of inflation linked swaps we took out in 2007/08. Please see the "Managing Financial Risk" section above for more detail. The movement is non-cash and has driven a favourable movement in the deferred tax provision of £42.0m, which has increased the tax credit by the same amount.

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- We are therefore reporting a loss for the financial year for 2018/19 of £644.5 million (2018: £68.0 million loss). Excluding all exceptional items and fair value movements detailed below, this represents an underlying loss for the financial year of £63.0 million (2018: £125.2 million). A reconciliation between this and the statutory measure can be found below.
- The balance sheet position has worsened year on year, from a net assets position of £27.3m at 31 March 2018 to a net liabilities position of £622.3m at 31 March 2019. This is driven by the loss made in the year.
- We have revalued infrastructure assets as at 31 March 2019 in line with our accounting policy. This revaluation increased the asset value by £43.9 million which has been reflected in the revaluation reserve (2018: £199.9 million). Please refer to note 12 to the financial statements for more detail.

Adjusted EBITDA is calculated as follows:

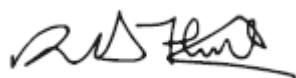
	2019 £m	2018 £m
Group operating (loss)/ profit before share of associates and joint ventures	(115.1)	288.1
Add back/(deduct) exceptional items (note 6)	378.7	(15.2)
Add back depreciation and impairment (note 12)	300.8	301.0
Add back amortisation of intangible assets (note 11)	11.9	9.8
Adjusted EBITDA	576.3	583.7

Underlying loss is calculated as follows:

	2019 £m	2018 £m
Loss on ordinary activities before taxation (continuing)	(685.4)	(65.2)
Add back/(deduct) exceptional items (note 6)	378.7	(15.2)
Add back/(deduct) fair value movements (note 21)	251.3	(41.0)
	(55.4)	(121.4)
Effects of taxation	(7.6)	(3.9)
Underlying loss	(63.0)	(125.3)

The underlying results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and as such, will no longer be designated as exceptional, however, should be excluded from underlying profit due to their magnitude. Further information on the derivative fair value movements can be found in note 21.

The strategic report was approved by a duly authorised committee of the board of directors on 15 July 2019 and was signed on its behalf by:



Richard Flint, Chief Executive

15 July 2019

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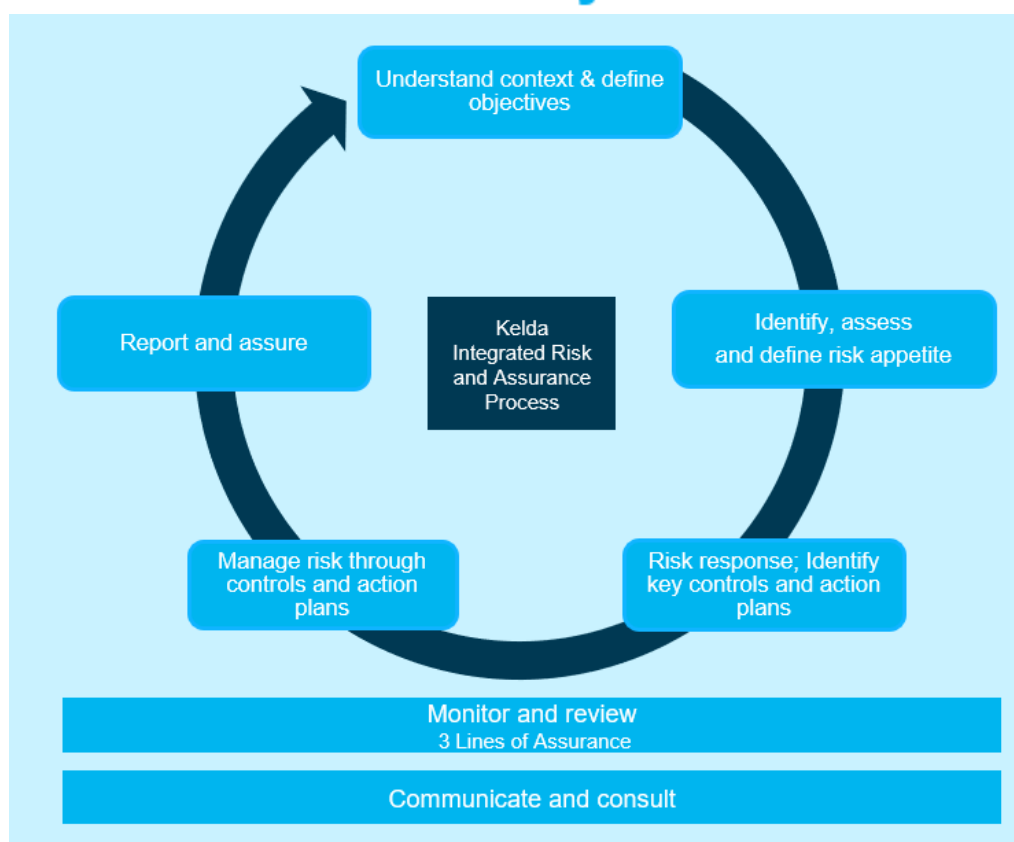
Identifying and managing our risks

Kelda provides a critical service to the 5.4 million people who live in Yorkshire, the millions of people who visit each year as well as 140,000 businesses. Effective risk management is central to ensuring we meet customer expectations all day, every day. Our framework for identifying and managing risk to acceptable levels is embedded in our normal business processes and culture.

Our approach to risk management

Our operating environment is subject to constant and sometimes rapid change. We must be able to respond to this change to maintain customer service and achieve our strategic goals. Our risk management approach is consistent with ISO31000:2018 and applies to all activities, decisions and processes.

Risk and Assurance Cycle



Risk and assurance process

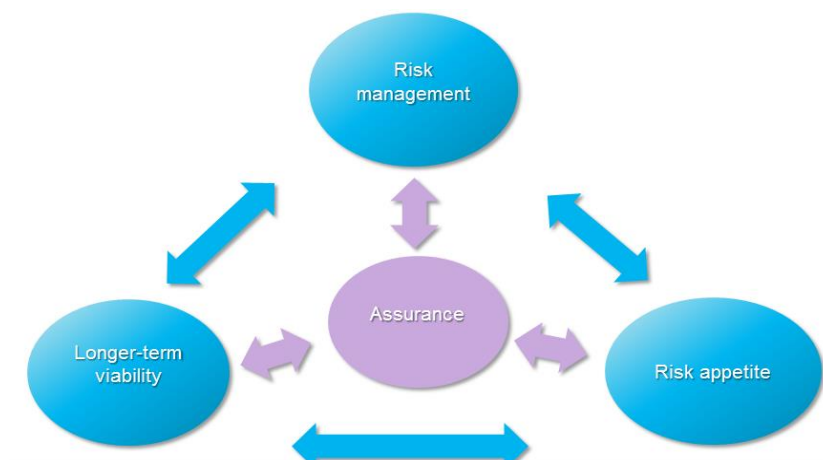
Set objectives	The board sets our strategic goals and our corporate risk appetite. It balances the cost of control with risk appetite and the long-term viability of the business.
Assessment	Risk identification is embedded in all our operational management systems. A standard risk scoring matrix ensures consistent measurement. Risk owners set the tolerable level of each risk within the corporate appetite. Risk Champions aid escalation.
Response	We tolerate a low residual risk with a strong control environment. Risk action plans manage risk to appetite.
Assure	Our coordinated three lines of assurance assesses the effectiveness of controls and the delivery of improvement plans.
Report	We have a monthly reporting cycle to the risk committee and the Board. Risk reports inform business planning and resourcing decisions.

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We balance the cost of control with the risk appetite and the long-term viability of the business.



Corporate risk appetite statement

A clearly defined risk appetite framework is aligned to our business strategy and approach. During 2018/19 the board set a cautious approach to risk taking. This means we tolerated a low residual risk which is well mapped. The integrated risk and assurance across the business confirms that we have a good control environment with a balance of preventative, detective and corrective controls.

As we seek to achieve our Upper Quartile and AMP 7 ambitions, delivering innovative solutions to working efficiently, we are prepared to be more open to financial or service risk for short-periods, with strong assurance in place.

Kelda's risk appetite by risk impact category

Impact	Appetite
Health and safety	We recognise the inherent water industry health and safety risk and are only prepared to tolerate risks that have been reduced to levels as low as reasonably practicable in line with Health and Safety Executive guidance.
Value	We have no tolerance of any risk that may result in a breach of covenanted ratios. We will maintain the headroom agreed by the board.
Service	We will achieve performance that results in no net financial loss over the AMP and maintains our cautious appetite on reputation. We put maintaining customer service at the heart of our risk management.
Reputation	We want to be best in class, respected across the industry and region. We will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives.
Compliance	We will be compliant with our statutory and regulatory obligations, only tolerating one-off, planned breaches in the pursuit of guaranteed improvement in compliance.
People	We strive to create a positive environment, to attract and retain the right skills. Effective engagement helps maintain productivity. We will tolerate a medium-term impact on business performance but no disruption to customer service due to a breakdown in employee relations or loss of critical skills.

Our principal risks at March 2019

Our principal risks are those individual or aggregated risks which have the potential to threaten viability or take the business significantly beyond risk appetite, some of which are beyond our control. The number of principal risks identified has reduced from 14 in March 2018 to 12 in March 2019. This is due to the maturity of action plans put in place to improve our compliance with specific obligations in relation to the General Data Protection Regulations (GDPR) and the Competition Act. These remain corporate risks, managed by leadership teams.

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This year has also seen significant extreme weather events and a volatile political environment continue to drive a heightened risk profile. In particular there has been an escalation in two principal risks:

- Customer experience and stakeholder trust has heightened this year, due to the business readiness work required to meet our Ofwat AMP7 commitments. The new Customer Experience team led by our director of customer experience are managing the transformation required to mitigate this risk.
- The attraction and retention of key talent, particularly STEM skills is a risk across the whole water sector.

Details of the principal risks as at 31 March 2019 are on pages 49 to 54. Of note, all red risks identified have comprehensive action plans in place; with oversight and review provided directly by Kelda's risk committee to assure delivery to appetite.

This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

This table shows the level of risk after mitigating controls have been applied at 31 March 2019.

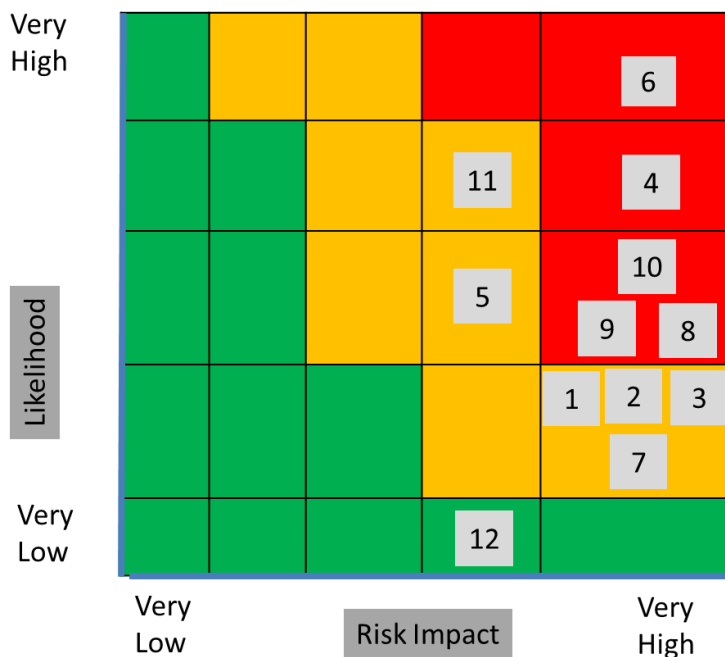
	Principal risk summary	2017	2018	2019
1	Public and colleague safety and wellbeing			
2	Enough clean, safe drinking water			
3	Leakage			
4	Protect our environment: Flooding and Natural Capital			
5	Climate change and resilience			
6	Customer experience and stakeholder trust			
7	Financial sustainability			
8	Security, cyber and data resilience			
9	Talent, culture, succession and retention			
10	Organisational transformation			
11	Political, legal and regulatory change: EU-exit, Loss of Legitimacy			
12	Open and transparent governance	New		

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Kelda's principal risk heat map by current risk level at 31 March 2019.



The heat map plots Kelda's principal risks by impact and probability. Kelda assesses the impact of risk on six key measures for the business: the health and safety of our colleagues, the quality and continuity of service provision, financial stability, our reputation, compliance with our obligations and the ability to attract and retain great colleagues. Likelihood is an assessment of the time period in which a risk may materialise. Those with a higher likelihood are considered to happen sooner unless mitigation is put in place.

More detail of our plans to manage risk to appetite is noted against the principal risks in the table overleaf.

Assurance and oversight of risks



Our integrated assurance approach provides management with a clear view on whether the control framework effectively mitigates risk to the accepted level. Our Risk and Assurance teams work together across the three lines of assurance to ensure that there is adequate, proportionate coverage across the whole control environment, including all corporate risks. The outcome from this integrated assurance is reported to the risk owners and the relevant committees to inform decision making. It helps senior managers understand our true risk profile, current levels of control and increasingly the culture in our business.

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Our principal risks

Principal risk	Change (from March 2018)	Customer Outcomes	Treatment plans	Assurance
1. Public and colleague safety We may fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners, leading to harm. Risk rating - AMBER	 This risk is being actively managed through the Health and Safety Improvement Plan, the focus on asset and process safety continues and the embedding of corporate policy and procedures linked to the Life-Saving Rules.	We provide you with water that is clean and safe to drink.	<ul style="list-style-type: none"> • ISO 18001 certified Occupational Health and Safety (OH&S) Management System is supported by a suite of policies and management procedures. • OH&S improvement programme: eight work streams driving a stepped change in our assets and practices. • Ten Life-Saving Rules have been rolled out across the whole business. • Health and Safety Fair Culture training for all colleagues, to embed a dynamic approach to learning and improving the safety of our processes. • Safety, health and environment committee (SHE) monitors performance to target using a detailed scorecard. • The refreshed Health, Safety and Well-being strategy and supporting structure is embedding of best practice health, safety and well-being policies and procedures. 	SHE committee oversee the management of health and safety risks. Internal Audit test the effectiveness of second line assurance. External auditors test ISO compliance. Health and Safety specialist team and Asset Integrity team test on-going compliance with good practice policy and procedures through a coordinated programme of inspections and audits. Delivery of the Health and Safety Improvement Plan is assured by the Programme Management Office (PMO).
2. Enough clean, safe drinking water We supply enough clean, safe water to meet the demand of Yorkshire consumers each day. Risk rating - AMBER	 Although this risk remains high it has reduced due to the impact of sustainable improvements we have delivered through capital schemes. We continue to monitor the impact of the weather on water supply daily and use our grid system and abstraction permits to manage this risk.	We provide you with water that is clean and safe to drink.	<ul style="list-style-type: none"> • Our flexible grid network. • Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply. • Drinking water safety planning. • Asset operation and maintenance plans available and followed for strategic assets. • ISO 9001 and 14001 certified operational policies and procedures are followed. • On-going resource and asset availability monitoring and response. • Engineering Reliability programme to support proactive maintenance. • PR19 Resilience Framework and central control capability to enable effective emergency planning. 	External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance. Internal Audit tests the design and operation of control framework. The independent water quality sample inspection regime tests the safety of the water supply. Water Service Delivery Compliance team assures the policies and procedures and test compliance. The Asset Integrity team assures the asset operation and maintenance plans. The Capital Programme PMO assures

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			response and recovery.	capital investment.
3. Leakage We may not achieve our short and medium-term objectives to reduce our leakage. Risk rating - AMBER	 We have separated this from “Enough safe, clean drinking water” to reflect the business focus on achieving stretched improvement in our performance over the next two years.	We make sure you always have enough water.	<ul style="list-style-type: none"> • ISO 9001 Quality Management and 14001 Environmental Management certified operational policies and procedures are followed. • Leakage management plan and monitoring. • Real time data analysis to support targeted leakage resolution. • Increased investment in new ways of working and resources to find and resolve leaks. 	External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance. Internal Audit tests the design and operation of control framework. Water Service Delivery Compliance team provides assurance that process and procedures are followed.
4. Protect our environment: flooding We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we fail to manage our substantial land holdings to minimise our carbon impact. Risk rating - RED	 Whilst the risk of widespread flood inundation remains a significant threat across Yorkshire, we continue to drive mitigation through our sector leading carbon management and innovation programmes. We continue to learn from pollution events to improve the impact of our discharge to the water environment.	We protect and improve the water environment. We take care of your waste water and protect you and the environment from sewer flooding.	<ul style="list-style-type: none"> • 9001 Quality Management and 14001 Environmental Management certified environmental and operational policies and procedures are followed. • Pollution incident reduction plan. • Land, coast and river management programmes. • Bio-resources plan. • Asset operation and maintenance plans available and followed for strategic assets. • Investment programmes in waste water treatment, networks and bathing waters. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives are embedded. 	External accreditors test and certify ISO 9001 and 14001 compliance and assure performance outturn. Internal Audit tests the design and operation of control framework. Waste Water Service Delivery Compliance team provides assurance that process and procedures are followed. The Asset Integrity team assures the asset operation and maintenance plans. The capital programme PMO assures capital investment.
5. Climate change and resilience We may fail to plan ahead to ensure that we can maintain essential services into the future fail to deal with the impacts of population growth, climate change and extreme weather conditions. Risk rating - AMBER	 We have clarified our 25-year strategy and are developing sector leading plans, optimising innovative partnership solutions.	All outcomes	<ul style="list-style-type: none"> • The Business Resilience and Integrated Management System teams are leading the introduction of BS65000 Organisational Resilience compliance to embed resilient policies and procedures across the business. • The development and roll-out of Yorkshire Water resilience framework. • Climate change strategy and WRAP. • Investment programme improving water efficiency and flood risk management. 	External auditors are supporting the achievement of the British Standard compliant policies and procedures. Internal Audit tests the design and operation of the control framework. The Capital Programme PMO assures capital investment. The Asset Strategy and Planning team assures the design and build of assets


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			<ul style="list-style-type: none"> • Bio-resources plan improving renewable energy generation. • Innovation programme led by the Asset Management team is introducing energy efficient technology. • Insurance. • Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working. • PR19 Resilience Framework and central control capability to enable effective emergency planning, response and recovery. 	meets our future needs and quality standards.
<p>6. Customer experience and stakeholder trust</p> <p>We do not consistently meet the expectations of our customers by failing to deliver on our commitments.</p> <p>Risk rating - RED</p>	 <p>We continue to consult our customers to understand what they expect and prioritise the quality of service delivery.</p>	<p>We provide the level of customer service you expect and value.</p>	<ul style="list-style-type: none"> • Customer Forum and online Customer Panel consultation drives our strategy and plans. • Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes. • Our operational policies and procedures align to the achievement of customer service objectives. • The Company Monitoring Framework ensures we report clearly, openly accurately with our customers. • Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield and Beverley. 	<p>The social value committee oversees the management of risks to customer service.</p> <p>External auditors test compliance with our customer service policies and procedures.</p> <p>Internal Audit tests the design and operation of the control framework. Data analytics provides live assurance over compliance with policies and procedures.</p> <p>Regulation, Water and Waste Water Service Delivery and Loop assurance teams test compliance with agreed policy and procedure.</p>
<p>7. Financial sustainability</p> <p>We fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience.</p> <p>Risk rating - AMBER</p>	 <p>In addition to strong business as usual financial controls, restructuring programmes are delivering improvements in our financial resilience, thereby reducing this risk.</p>	<p>We keep your bills as low as possible.</p>	<ul style="list-style-type: none"> • The annual business plan and budget is set in the context of our five-year AMP. • Finance Business Partners provide consistent budget monitoring through the year. • The board investment committee oversees all capital expenditure in line with the approved five-year plan. • The financial policies, procedures and control framework are set out on our internal intranet for colleagues 	<p>Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte.</p> <p>The financial governance group assures financial regulations, standards and procedures.</p> <p>The assurance team, and Governance and Compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management,</p>

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			<ul style="list-style-type: none"> Financial restructuring programmes are providing headroom, to support resilience. Arrangements are in place to support customer affordability and managing customer debt. The General IT Control Framework automates and embeds financial controls including the segregation of duties and access. 	commercial and procurement controls. Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.
8. Security, cyber and data resilience We may fail to keep our people, assets and information secure. Risk rating - RED	 We recognise that the security threat is ever present and is volatile. We continue to strengthen our physical, information and cyber controls as well as response plans, and have improved security culture and awareness.	We provide the level of customer service you expect and value.	<ul style="list-style-type: none"> The security forum oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security. Our information security management procedures are ISO27001 (Information Security Management) compliant. The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. A range of physical security controls are in place across all our sites. There is an on-going training, development and communication programme for all colleagues to improve security culture and compliance. A range of information and cyber security projects are further improving the control environment, to achieve GDPR, Network Information Systems Directive (NISD) and other external standards. 	<p>External financial auditors test and report on our GITCs. Internal Audit, using co-source expertise, tests the design and operation of the control framework.</p> <p>The Security Steering Group oversees compliance with policies and procedures.</p> <p>ISO 27001 compliance is monitored through the Information Security team. External expertise is used to assure the adequacy of policies and procedures and test compliance.</p> <p>Compliance is monitored by technical specialist teams using data analytics and real-time assurance techniques.</p> <p>The Data Protection Officer oversees development of GDPR compliant policies and procedures, including an inspection programme.</p>
9. Talent, culture, succession and retention. Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future.	 This risk has escalated due to sector-wide challenges in attracting and retaining	All outcomes	<ul style="list-style-type: none"> Our dedicated HR team set policies and procedures, which are published on our Intranet. The responsible leaders' framework sets core and functional competencies, achievement is monitored via our annual 	<p>Internal Audit tests the design and operation of the control framework and cultural alignment.</p> <p>Our Speak Up (whistleblowing) Policy allows colleagues to raise concerns to be investigated directly.</p>


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<p>Risk rating - RED</p>	<p>appropriate skills, in particular science and engineering talent. We develop our culture, succession plans and skills to respond to our new ambitions and improve our agility.</p>		<p>performance management cycle.</p> <ul style="list-style-type: none"> • We have a company-wide approach to succession planning, to identify and sustain our critical skills. • Our management and corporate development programmes improve awareness of controls, support our learning culture helping achieve future objectives. • Our industry leading approach to incentives and reward is overseen by the remuneration committee. 	<p>Our business-wide colleague engagement survey provides assurance over colleague trust and culture.</p> <p>The HR team uses data analytics to test compliance with HR policies and assures our capacity and capability.</p>
<p>10. Organisational transformation We may fail to achieve the transformation required to deliver our customer expectations.</p> <p>Risk rating - RED</p>	 <p>This principal risk reflects the extent of our ambitions and the organisational transformation required to achieve them.</p>	<p>We keep your bills as low as possible.</p>	<ul style="list-style-type: none"> • The Yorkshire Water Leadership Team oversees the delivery of the portfolio of change, prioritising resource to manage risk. • There is an integrated programme of change initiatives • The corporate approach to programme management sets a standard control framework. • Performance management processes throughout the business support the delivery of change. 	<p>Internal Audit tests the design and operation of portfolio and programme management controls.</p> <p>The PMO provides assurance over individual transformation programmes, including Gateway reviews. The Enterprise Portfolio Management team provides overarching assurance over our transformation programme.</p> <p>A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives.</p>
<p>11. Political, legal and regulatory change We may fail to adapt quickly to externally driven political and regulatory change.</p> <p>Risk rating – AMBER</p>	 <p>This principal risk recognises the changing political environment facing the Water Industry and the UK. This includes our comprehensive response to EU-Exit and the threat of Municipalisation.</p>	<p>All outcomes.</p>	<ul style="list-style-type: none"> • Stakeholder relationships with our regulators provides an early view of regulatory and legal change. • Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations. • A suite of cross-business training and development promotes awareness of new obligations. • Emergency Planning and board led response to EU exit no deal 	<p>A programme of internal and external audits tests the design and operation of controls to achieve compliance.</p> <p>The Regulation team monitors the compliance with our regulatory obligations.</p> <p>Our risk and controls self-assessment requires all senior leaders to assure awareness of, and compliance with, our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.</p>

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			<p>planning. Weekly national level water sector updates to central government.</p> <ul style="list-style-type: none"> • Directors have been working nationally with Water UK and peer companies to respond to the legitimacy / municipalisation challenge by developing a national framework for a social contract for the sector. 	
<p>12. Open and transparent governance</p> <p>Our processes and actions may not be transparent.</p> <p>Risk rating - GREEN</p>	 <p>This risk recognises our clear AMP7 ambitions.</p>	All Outcomes	<ul style="list-style-type: none"> • The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks. • The Company Monitoring Framework ensures we report clearly, openly accurately. • Data governance and data quality policies and procedures are set out on our Intranet. 	<p>Internal Audit tests the design and operation of the data governance and quality control framework.</p> <p>External auditors (Deloitte and Jacobs) review the Annual Performance Report and Annual Report and Financial Statements.</p>

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Corporate Governance Report

for the year ended 31 March 2019

Principles of Corporate Governance

The Board is open and accountable to each of the company's shareholders and stakeholders for maintaining standards of corporate governance.

This report describes how the Board of the group and its committees discharge their duties in respect of corporate governance and specifically in relation to the following principles established by Ofwat.

The Ofwat Board Leadership, Governance and Transparency Principles

In January 2019 Ofwat published a set of revised Board Leadership, Governance and Transparency Principles, which replaced the principles for Regulated companies and holdings companies previously published in 2014. These new principles apply to regulated companies, and therefore apply to Yorkshire Water Services Limited within the Kelda group. The principles are set out below, along with the ways in which Yorkshire Water complies with each:

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

As described in the Yorkshire Water Annual Report and Financial Statements, there has been much work undertaken in the year in relation to the purpose and strategy of the regulated company. This has included publishing the long-term strategy of the regulated company in August 2018, as noted on page 4 and the submission of our next Price Review plan to Ofwat, also in August 2018. The Yorkshire Water board has held multiple workshops throughout the year to review and discuss these strategies and to take the key decisions in relation to these.

The board of Yorkshire Water also sets the values for the regulated company and monitors how these are reflected in the culture through a variety of means, including reviewing feedback from the twice yearly Kelda Voice employee survey, reviewing reports from internal audit at the Yorkshire Water audit committee and through the regular interactions of the Yorkshire Water board with the senior management team across the business.

To determine whether the purpose, strategy and values reflect the needs of those it serves, there was significant customer engagement undertaken as part of the work in relation to the five-yearly Price Review plan. This feedback was reviewed by the Yorkshire Water board in detail and used to shape much of our submission to Ofwat. In addition, the board of Yorkshire Water is in the process of setting-up a colleague engagement forum to hear directly from our employees on a range of matters being considered by the regulated company board. We also have three investor directors sitting on the board of Yorkshire Water to ensure that we are able to consider the needs of our shareholders in the decisions that the regulated company board makes, in compliance with section 172 of the Companies Act 2006.

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long-term.

As detailed in the Yorkshire Water Annual Report and Financial Statements, we undertake an annual board evaluation for the regulated company to ensure that the board continues to operate effectively.

The appointment of shareholder representatives to the regulated company board in September 2017 means that the board is able to operate effectively with full responsibility for all aspects of the regulated company's business, to the extent permitted under company law.

The Yorkshire Water board also gives much consideration to the longer-term success of the business. This is detailed further within the Yorkshire Water Annual Report and Financial Statements.

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

One of our five Big Goals is transparency and Yorkshire Water is committed to becoming an Open Data company by 2020. In May 2018 Yorkshire Water published a report on its consultation with customers around the openness charter and published an openness roadmap to indicate the order in which Yorkshire Water would be releasing the data that customers want to see and what each release would include. This includes information on water quality,

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pollution, micro plastics, street works, pay and dividends, gender pay gap, asset information and corporate policies.

Customer experience and stakeholder trust has been identified by the Yorkshire Water board as one of the principal risks and information on how this has been mitigated is on page 51.

Yorkshire Water also seeks to assure information through independent means wherever possible, and detail is included in the Yorkshire Water Annual Report and Financial Statements to indicate where information has been independently verified and the three-line assurance process in place to assure that the information provided is as trustworthy as possible.

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

As noted above we undertake a board evaluation process each year to assess the competency of our board. Further information on the process conducted in the year under review is on page 55.

We have gone beyond the governance requirements of having an audit, remuneration and nomination committee to also have social value and safety, health and environment committees because we recognise the importance of these two areas of focus and the need for the board to spend more time on these areas to enable high-quality decisions to be made, with detailed information available to the board that takes into account the needs of our customers and other stakeholders.

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Group structure

The structure of the group and its principal operating subsidiaries is transparent and explained in a clear and simple way on the group's website. Details of the group's shareholders and capital structure are also published on the group's website.

The simplified group structure is set out on page 36.

Leadership

The Board composition

The Board comprises an independent non-executive chairman, eight investor non-executive directors and two executive directors.

The composition of the Board at 31 March 2019 was as follows:

Independent Non-Executive Chairman – Anthony Rabin

Executive directors

Richard Flint	- Chief Executive
Liz Barber	- Director of Finance, Regulation and Markets

Investor Non-Executive Directors

Simon Beer	- SAS Trustee
Paul Barr	- GIC
Andrew Dench	- GIC
Vicky Chan	- Corsair
Mark Lorkin	- Corsair
Mike Osborne	- Corsair
Scott Auty	- Pan-European Infrastructure Fund
Aparna Narain	- Pan-European Infrastructure Fund

Alternative non-executive directors

Jean Daigneault	- Alternate for Michael Osborne (Corsair)
Antonio Herrera	- Alternate for Vicky Chan (Corsair)
Stephen Kynaston	- Alternate for Simon Beer (SAS Trustee)

The biographies of the Board can be found on pages 63 and 64.

After the year-end two changes were made to the investor non-executive directors with Mark Lorkin being replaced by Hari Rajan with effect from 25 June 2019 and Svetlana Barthelemy replacing Paul Barr with effect from July 2019.

Each of the directors served on the board of the company's subsidiary, Kelda Eurobond Co Limited. Anthony Rabin, Richard Flint and Liz Barber are also members of the board of Yorkshire Water, along with Scott Auty, Andrew Dench and Mike Osborne who serve on the board of Yorkshire Water as investor non-executive directors. The appointment of the investor non-executive directors to the Yorkshire Water board in September 2017 has brought considerable benefit to the board of Yorkshire Water through closer interaction with the shareholder representatives and an increased diversity of skills and experience, whilst ensuring that the independent non-executive directors remain the largest group on the Yorkshire Water board.

Richard Flint and Liz Barber also hold directorships within other Kelda Group companies.

Anthony Rabin is the independent chairman of Yorkshire Water Services Limited and Kelda Eurobond Co Limited.

The roles of the Chairman and CEO are separate and clearly defined. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business. A statement of their roles and responsibilities, formally agreed by the Board, are published on the company's website at www.keldagroup.com.

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Corporate Governance Report

for the year ended 31 March 2019

Board structure and committee attendance

The board has an established audit committee with written terms of reference setting out its duties and purpose. This is available on request from the company secretary or on the corporate governance section of the company's website at www.keldagroup.com.

The Board held six scheduled meetings during the year. The table below shows the number of meetings of the board and audit committee attended by each director out of possible attendances. The board's expectation, practice and experience are that all directors attend and fully participate in each board meeting however this has not always been possible during the year due to other commitments.

Board Attendance	Board	Audit
Anthony Rabin	6/6	4/4
Scott Auty	5/6	3/4
Liz Barber	6/6	-
Paul Barr	1/6	0/4
Simon Beer	6/6	4/4
Vicky Chan	2/6	-
Andrew Dench	6/6	-
Richard Flint	6/6	-
Mark Lorkin	0/6	-
Aparna Narain	3/6	-
Mike Osborne	6/6	4/4

Since the year-end both Paul Barr and Mark Lorkin have been replaced on the board with shareholder representatives who anticipate that they will be able to attend meetings with greater regularity. Each of our shareholders have been represented by at least one director at each of the meetings held.

Audit Committee

The audit committee's membership comprises five non-executive directors, namely Anthony Rabin, Scott Auty, Simon Beer, Mike Osborne and Paul Barr. The committee was chaired during the year by Anthony Rabin, who has significant recent and relevant financial expertise.

The Director of Finance, Regulation and Markets, the external auditors, the Head of Risk and Assurance, the Internal Audit Manager, the Head of Finance and the Company Secretary also attend all meetings.

The audit committee met four times during the year. The committee chairman reports on the activities of the committee during the board meeting immediately following each committee meeting.

Board responsibilities

The board is ultimately accountable to its stakeholders for its activities.

The board has a schedule of matters reserved for its decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the group.

The matters reserved to the board include the principle that the group must not act in a way which would prevent Yorkshire Water from complying with its Instrument of Appointment and the Water Industry Act and any other requirements of the relevant regulatory regime. This accords with provisions contained within the shareholders' agreement, to which the company is a party. The directors remain mindful of their duty to ensure that this requirement is met in their consideration of any matters relating to Yorkshire Water and the Kelda Group as a whole.

The board intends to ensure that the group refrains from any action which would cause Yorkshire Water to breach any of its obligations and to provide it with all necessary information for it to comply with its licence.

In accordance with Condition P of its licence, the Board of Yorkshire Water contains at least three independent non-executive directors who are "persons of standing with relevant experience" and who "collectively have

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connections with and knowledge within which” the Company holds its appointment, and “an understanding of the interests of the customers of the Company and how these can be respected and protected”. The board expects that position to be maintained by the board of Yorkshire Water as the appointments of these directors come to the end of their term.

The Kelda Holdings board provides the board of Yorkshire Water with the information it reasonably requires about the activities of the wider Kelda Group. It also expects to continue to support Yorkshire Water, to the extent required, in operating in a sustainable way (including making long-term decisions) in line with the long-term nature of the water sector. The board does not consider that there are currently any issues at the Kelda Group level that may materially impact on Yorkshire Water.

As set out in the Annual Report and Financial Statements of Yorkshire Water, a number of steps have been taken by Yorkshire Water to ensure full compliance with the Ofwat Principles published in 2019. The Group expects to continue to support Yorkshire Water, to the extent required and applicable, in complying with the Ofwat Principles.

The schedule of matters reserved to the board refers to group-related matters which would normally be considered by a shareholding company, including the following key matters:

- The group’s strategic plans and key policies;
- Approval of the business plans for the group;
- Approval of interim and annual financial statements;
- Recommendations of dividends;
- Significant investment and major new business proposals;
- The establishment and review of the group’s system of internal control and risk management and the annual review of its effectiveness; and
- Any significant organisational and corporate governance arrangements.

The board of Yorkshire Water also has a schedule of matters reserved and this specifically includes approval of the company’s own strategic business plans. These are explained in the Annual Report and Financial Statements of Yorkshire Water. This was last reviewed and approved, in consultation with the board of Kelda Holdings Limited in 2017. Yorkshire Water’s strategic plans are reviewed annually having regard to the overall group strategic plans.

Board Activities

During the year, the board received detailed monthly reports prepared by management on the group’s operations although its strategy focussed on Yorkshire Water as its core regulated business. Matters considered by the board during the year were largely among those reserved for the board’s approval alongside approval of the Yorkshire Water price review submission to Ofwat, prior to submission.

Several strategy days were held during the financial year which were attended jointly by members of both the Yorkshire Water and Kelda Holdings boards. The strategy days enabled more detailed collaboration and consideration by the boards of specific topics, which included long term strategy formation, customer and stakeholder engagement and the development of the PR19 business plan.

Conflicts of interest

There is a clear process for the disclosure of any potential conflicts by the directors to the board and if appropriate for the authorisation of such conflicts. All of the directors are required to notify the company secretary if they believe a conflict situation might arise and directors are required to consider any conflicts at each board meeting. The directors do not consider that during the financial year any actual conflicts of interest have arisen between the roles of the directors as directors of the group and any other roles which they may hold.

Appointment of Directors

New directors joining the company are given a broad and comprehensive induction to the business, as appropriate, consisting of site visits, meetings with key personnel and detailed information relating to the business, as well as any training specifically required in relation to the duties of directors and their role on the board.

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The induction process includes a briefing on the duties and obligations of a water and sewerage undertaker with specific reference to the Condition P requirements imposed on an “Ultimate Controller” under the Instrument of Appointment of Yorkshire Water.

Directors training and development

The board receives regular updates on governance-related matters and more formal training where appropriate. Training is available to directors on, and after, their appointment to meet their requirements. In conjunction with the chairman, the chief executive reviews and agrees with the executive directors their training and development needs. The chairman keeps under review and agrees the training and development needs of the non-executive directors, which is organised by the company secretary.

There is an agreed procedure for directors to take independent professional advice at the company's expense in furtherance of their duties in relation to board or committee matters.

Directors have access to the company secretary who is responsible for ensuring that board requirements are met and procedures are followed in accordance with good governance. They also facilitate the flow of communication between senior management and the non-executive directors.

The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged.

The company has directors' and officers' liability insurance in place.

Board effectiveness review

The board of Yorkshire Water conducts an externally facilitated review of the performance of the Board, its committees and directors at least every three years. In November 2018 the board evaluation was externally facilitated by Independent Audit Limited. Independent Audit Limited are entirely independent from Yorkshire Water and provide no other services to the business. Whilst the Board of Kelda Holdings Limited is not required to undertake such a review, it will review actions arising from the evaluation as they relate to the operation of the board and in light of the investor representation on the Yorkshire Water board.

Board Diversity

The remuneration committee of the Yorkshire Water board continues to lead discussion on the board's approach and objectives for the company in relation to diversity and inclusion. The company continues to focus on the areas of gender and ethnicity, enhancing the balance within its workforce to progress it towards becoming a more diverse and inclusive employer.

The board continues to closely monitor its diversity, particularly in relation to gender and ethnicity. As at 31 March 2019, the board of Kelda Holdings Limited had a female board representation of 27.2%, which has increased to 36.4% post year-end.

The group's Diversity and Inclusion policy is available on the website at www.keldagroup.com/corporate-governance/kelda-group-policies/

Gender, ethnicity and age statistics for the group are provided in the Strategic Report on page 30.

Internal control and risk management

The board is responsible for the group's internal control systems and for reviewing their effectiveness. The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the group have been in place for the year to 31 March 2019 and up to the date of approval of the Annual Report and Financial Statements (ARFS) and are regularly reviewed by the board. The group has a comprehensive and well-defined risk management policy, including control policies, with clear structures, delegated authority levels and accountabilities, described in pages 49 to 54 within the Strategic Report. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. The process can only provide reasonable, not absolute, assurance against material misstatement or loss. The group risk committee monitors the overall level of risk, the quality of control frameworks and the delivery of action plans to

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bring risk in line with appetite. In relation to financial reporting, the systems of risk management and internal control include an accounting policy manual and an established system of accounting processes, including management monitoring and review.

In 2018/19 the group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

- The key risks facing the group are identified through a clear risk assessment matrix, and recorded in the corporate risk register.
- The risk committee reviews all movements in strategic risk as well as considering the adequacy of the controls in place to mitigate strategic risks to risk appetite.
- Risk registers are maintained by individual business units, with clear allocation of management responsibility for risk identification, recording, analysis and control.
- Risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action.
- Key risk indicators are used to monitor changes in risk position.
- The risk committee reviews the group's strategic risk position.
- A risk review is conducted with the Yorkshire Water Leadership Team (YWLT) and the Board using a PESTLE analysis (political, economic, social, technological, legal and environmental) at least annually.
- The audit committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf the Group.
- Delivery of the risk based Internal Audit plan provides independent assurance to audit committee and senior leaders.

The audit committee has considered the control environment and control activities which the Board can rely on for disclosures in this report. During the reporting year, the committee has also acted on behalf of the group to review the effectiveness of:

- Risk management: Internal audit conducted by our internal audit co-source partner, KPMG, including materiality assessment and comparison to best practice.
- The effectiveness of internal audit: Monitoring performance against agreed Key Performance Indicators.
- The effectiveness of external audit: Annual questionnaire of key stakeholders allowed tracking of performance against targets.

The group audit committee confirms that it has reviewed the system of internal control. It has received the reports of the risk committee and has conducted a formal review covering all controls including financial, operational, compliance and risk management. No significant failings of internal control were identified during these reviews, limited weaknesses were identified, none of which are significant and all have clear action plans to address them in an appropriate time frame.

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Directors' Report

for the year ended 31 March 2019

The directors present their report and the audited consolidated financial statements for the group for the year ended 31 March 2019. The Directors' Report should be read in conjunction with the Strategic Report. The Corporate Governance Report on pages 55 to 61 forms part of this Directors' Report.

Financial results for the year

The loss for the financial year was £644.5 million (2018: loss of £68.0 million).

Dividends

No dividends paid during the year (2018: £Nil).

Principal activity

The principal activities of the group are to manage the collection, treatment and distribution of water in Yorkshire. At the same time the group also collects, treats and disposes of waste water safely back into the environment. Yorkshire Water, the group's regulated utility business in the UK, is responsible for both water and wastewater services.

Other businesses include the UK non-regulated water and waste water services business, Loop Customer Management Limited, Kelda Water Services Limited, Keyland Developments Limited, a company which primarily develops surplus property assets of Yorkshire Water, and Three Sixty Water Limited, the business which offers water and waste water retail and added value customer services to non-household customers across the UK on a contractual basis with Yorkshire Water.

Business review

A review of the development and performance of the group, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the group are set out in the Strategic report on pages 2 to 54.

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

Directors

The Directors who served during the year and up to the date of signing these financial statements, including any changes, are shown below:

Anthony Rabin (Chairman)
Scott Auty
Liz Barber
Paul Barr
Simon Beer
Vicky Chan
Andrew Dench
Richard Flint
Mark Lorkin
Aparna Narain
Mike Osborne

Alternative non-executive directors

Jean Daigneault	- Alternate for Mike Osborne
Antonio Herrera	- Alternate for Vicky Chan
Stephen Kynaston	- Alternate for Simon Beer

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Directors' Report

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Biographies

Anthony Rabin

Anthony was with Balfour Beatty plc, the international infrastructure group, for 17 years until June 2012, including six years as the chief financial officer and four years as the deputy chief executive. He has also held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group) and Morgan Grenfell & Co (Senior Assistant Director). Anthony is a fellow of the Institute of Chartered Accountants in England and Wales and is an English barrister.

Anthony was appointed to the Board as a non-executive director and interim chairman with effect from 1 June 2016 and chairman from 9 September 2016. He was also appointed as independent non-executive Chairman of Yorkshire Water Services Limited and Kelda Eurobond Co Limited on this date.

Richard Flint

Richard was appointed group chief executive to the board in March 2010 and chief executive of Yorkshire Water in April 2010. He was appointed as chief operating officer of Yorkshire Water in September 2008 and prior to this was director of the company's water business unit from 2003.

He is Chair of the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and a member of the BITC Water Taskforce. He is also a board member of the water industry trade body, Water UK. Richard was also appointed to the board of trustees of Marie Curie early in 2017, having previously been a trustee of WaterAid.

Liz Barber

Liz was appointed as director of finance and regulation to Yorkshire Water and group finance and regulation director to the board of Kelda Holdings Limited in November 2010.

Now director of finance, regulation and markets, Liz joined the company from Ernst & Young LLP where she held several senior partner roles, including leading the firm's national water team and the assurance practice across the north region. Liz had been with Ernst & Young since 1987 and in that time worked with some of the largest companies in the UK. Liz specialised in delivery of services to the water industry, including several water companies and UK regulators. Liz is a fellow of the Institute of Chartered Accountants in England and Wales.

Liz is a lay member and trustee of the University of Leeds, and is a non-executive director and chair of the audit committee at KCOM Group PLC. Liz is also a member of HRH Prince Charles' Accounting for Sustainability network of CFOs, which she chaired for two years.

Scott Auty

Appointed to the board as a non-executive director on 10 December 2010, Scott is a director of DWS's infrastructure business, Europe, based in London and is responsible for the origination and execution of infrastructure investment opportunities as well as the ongoing management of the acquired assets. He is a member of the investment committee for the two European infrastructure funds managed by DWS. Prior to joining DWS's infrastructure business in 2005, Scott started his career at N M Rothschild & Sons' investment banking division where he was a specialist in the Utilities and Natural Resources sectors.

Scott was appointed to the board of Yorkshire Water Services Limited as an investor non-executive director in September 2017.

Paul Barr

Appointed to the board as a non-executive director from 27 January 2012, Paul is a vice president in the infrastructure group of GIC, Singapore's sovereign wealth fund. From 1997 to 2012, Paul previously worked at Challenger Limited, Macquarie Bank, Ernst & Young, Arthur D Little and Wood Mackenzie. He was also previously a non-executive director of Welcome Break, the UK motorway services business. Paul is a member of the Institute of Chartered Accountants of Scotland, a CFA Institute Charterholder and was previously a member of the Chartered Institute for Securities and Investment.

Simon Beer

Appointed to the board as a non-executive director on 20 December 2016, Simon is currently a partner at StepStone Infrastructure and Real Assets where he leads the Asset Management function. Prior to joining StepStone, Simon worked at Ontario Teachers' Pension Plan in their Infrastructure and Natural Resources team where he focused on asset management and value creation across their global portfolio.

Kelda Holdings Limited

Directors' Report

for the year ended 31 March 2019

Simon has also been a partner at KPMG, focused on operational improvement in the Infrastructure and Natural Resources sectors and before that worked for BP in their upstream major projects division. He started his career at Kellogg, Brown and Root a leading engineering and construction company. Simon is also a director of Northern Gas Networks Limited.

Vicky Chan

Appointed to the board as a non-executive director on 27 September 2013, Vicky is a principal at Corsair Infrastructure Management, L.P., an entity affiliated with Corsair Capital LLC (together with its affiliates, "Corsair"). Vicky is also a director of Arecibo Servicios y Gestiones, S.L. and Itínere Infraestructuras, S.A.

Andrew Dench

Appointed to the board as a non-executive director on 30 September 2015, Andrew is a senior vice president in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio and is also a non-executive director on boards for Terega (Gas Transportation and Storage, France), Duquesne Light and Power (Electricity Transportation and Distribution, US) and Greenko (Renewal Generation, India).

Prior to joining GIC, Andrew was CFO of Electricity North West and Deputy CEO / CFO of Veolia Water, UK, Ireland & Northern Europe. While at Veolia, he was a non-executive director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan & Stanley where he was focused on project finance, M&A, utilities and the natural resources sector.

Andrew was appointed to the board of Yorkshire Water Services Limited as an investor non-executive director in September 2017.

Mark Lorkin

Appointed to the board as non-executive director on 13 July 2017, Mark is the managing director of Citi Infrastructure Investors and was previously a director of Kelda Holdings Limited from 2009 to 2013. Mark is also a director of Itínere Infraestructuras, S.A., DWPA Australia Ltd and West Park Capital Pty Ltd.

Aparna Narain

Appointed to the board as a non-executive director on 15 November 2017, Aparna was also previously a director from March 2014 to November 2016. Aparna is a Vice President of Deutsche Asset and Wealth Management, a division of Deutsche Bank. She is responsible for identifying and analysing infrastructure investment opportunities, the implementation of transactions, and the ongoing management of acquired businesses. Prior to Deutsche Asset and Wealth Management, she worked for Citigroup, advising clients in the power and utilities sectors on a range of fixed income financings.

Mike Osborne

Appointed to the board as a non-executive director on 31 January 2013, Mike is a principal at Corsair Infrastructure Management, a business unit of Corsair Capital. He is also a director of Itínere Infraestructuras, S.A., a toll road operator in Spain. Mike has 16 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

Mike was appointed to the board of Yorkshire Water Services Limited as an investor non-executive director in September 2017.

Jean Daigneault

Jean was appointed to the board on 1 February 2013 as an alternative for Mike Osborne.

Antonio Herrera

Antonio was appointed to the board as alternate to Vicky Chan in September 2013.

Stephen Kynaston

Stephen was appointed to the board on 20 December 2016 as an alternative for Simon Beer.

Shareholders

As at the 31 March 2019, the shareholders of the group were as follows.

Kelda Holdings Limited

Directors' Report

for the year ended 31 March 2019

- Pan-European Infrastructure Fund: 23.37% holding
- Gateway Infrastructure Investments L.P., Gateway UK Water L.P. and Gateway UK Water II L.P., (managed by Corsair Infrastructure Management L.P.): 30.32% holding
- GIC: 33.56% shareholding
- SAS Trustee Corporation: 12.75% holding

Research and development

The group undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2018/19 £3.2m (2018 £4.8m) was committed to research and development.

Fixed assets

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

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

Revaluation of assets

Certain classes of the company's tangible assets were revalued in the year, as detailed in note 12 to the Statutory Financial Statements. As a result of the valuation carried out at 31 March 2019 the carrying value of the infrastructure assets has increased by £43.9 million and the resulting revaluation surplus taken to the revaluation reserve. Certain classes of the company's land and buildings are also held under a revaluation model, on the basis of existing use, have been valued by independent qualified surveyors in March 2019. This has resulted in a decrease of £3.2 million, of which £2.9 million has been taken to the revaluation reserve and £0.3 million to the profit and loss account.

Political donations

The group does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However, the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the Group and stakeholders.

As part of its stakeholder engagement programme the group incurred expenditure of £2,000 (2018: £5,000) on such activities.

Annual General Meeting

The shareholders of Kelda Holdings Limited do not require an annual general meeting to be held, given their representation on the board and therefore the company has dispensed with the requirement to hold an annual general meeting.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report.

The directors have considered the five-year business plan and the cash position of the group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the group for the 12 months from the date of signing the Financial Statements. In addition, Yorkshire Water Services Limited has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

Kelda Holdings Limited

Directors' Report

for the year ended 31 March 2019

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Post balance sheet event

In April 2019, Yorkshire Water listed its first sustainability bond on London Stock Exchange's dedicated Green Bond Segment. The £350 million, 2.75% issuance has a tenor of 22 years, due to mature in April 2041.

Independent auditors

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

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- Each director has taken all the steps that he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information, and to establish that the group's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing 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 applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board / as adopted by the European Union. The financial statements are required by law to 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.

However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

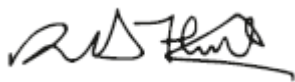
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Kelda Holdings Limited

Directors' Report

for the year ended 31 March 2019

The directors' report was approved by a duly authorised committee of the board of directors on 15 July 2019 and signed on its behalf by:



Richard Flint, Chief Executive

15 July 2019

Registered office:

47 Esplanade

St Helier

Jersey

JE1 0BD

Company secretary: Kathy Smith

Western House

Halfax Road

Bradford

West Yorkshire

BD6 2SZ

Independent auditor's report to the members of Kelda Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Kelda Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB); and
- have been properly prepared in accordance the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 29 of the group accounts; and
- the related notes 1 to 7 of the parent company accounts.

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

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 group and the parent 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 group's or the parent 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.

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 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.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, 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 group's and the parent 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 group or the parent 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.

Report on other legal and regulatory requirements**Matters on which we are required to report by exception**

Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper 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; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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
For and on behalf of Deloitte LLP
Leeds, United Kingdom

15 July 2019

Kelda Holdings Limited
Consolidated Financial Statements
for the year ended 31 March 2019

Consolidated statement of profit or loss
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Revenue	3	1,063.9	1,013.3
Operating costs before exceptional items	5	(800.3)	(740.4)
Exceptional items	6	(378.7)	15.2
Total operating costs		(1,179.0)	(725.2)
Operating (loss)/profit before share of associates and joint ventures		(115.1)	288.1
Share of associates' and joint ventures' profit/(loss) after tax		0.7	(0.1)
Operating (loss)/ profit from continuing operations		(114.4)	288.0
Finance income before fair value income		67.1	46.1
Fair value income		41.8	115.4
Finance income	8	108.9	161.5
Finance costs before fair value cost		(386.8)	(440.3)
Fair value cost		(293.1)	(74.4)
Finance costs	8	(679.9)	(514.7)
Loss from continuing operations before taxation		(685.4)	(65.2)
Tax credit/(charge)	9	40.6	(9.5)
Loss from continuing operations		(644.8)	(74.7)
Profit from discontinued operations net of tax	10	0.3	6.7
Total loss for the year		(644.5)	(68.0)

The notes on pages 76 to 156 form an integral part of the financial statements.

Kelda Holdings Limited

Consolidated Financial Statements

for the year ended 31 March 2019

Consolidated statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Total loss for the year		(644.5)	(68.0)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of assets before taxation	12	41.0	199.6
Taxation on revaluation of assets	9	(7.0)	(33.9)
		34.0	165.7
Remeasurement of defined benefit pension before taxation	19	(20.1)	85.0
Remeasurement of employer funded retirement benefit scheme before taxation		(1.2)	0.6
Taxation on defined benefit pension	9	3.5	(9.1)
		(17.8)	76.5
Items that may be subsequently reclassified to profit or loss:			
Gains on hedges taken to equity before taxation		0.9	5.7
Taxation on hedge gains		-	(3.0)
		0.9	2.7
Other comprehensive income for the year, net of tax		17.1	244.9
Total comprehensive (loss)/profit for the year		(627.4)	176.9

Kelda Holdings Limited

Consolidated Financial Statements

for the year ended 31 March 2019

Consolidated statement of financial position as at 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets	11	1,163.6	1,458.0
Property, plant and equipment	12	7,943.8	7,703.4
Investments in associated undertakings and joint ventures		0.8	0.1
Loans to associated undertakings and joint ventures		2.0	1.0
Derivative financial assets	21	117.8	88.2
Post-employment benefits surplus	19	73.6	84.8
		9,301.6	9,335.5
Current assets			
Inventories		3.1	3.0
Trade and other receivables	13	239.8	158.6
Tax assets		2.4	2.1
Cash and cash equivalents	14	70.1	65.6
Assets held for sale	15	-	160.4
		315.4	389.7
Total assets		9,617.0	9,725.2
Current liabilities			
Trade and other payables	16	(367.0)	(345.9)
Deferred grants and contributions on depreciated assets	17	(11.0)	(10.0)
Borrowings	14	(2,296.7)	(280.5)
Liabilities directly associated with assets held for sale	15	-	(103.1)
		(2,674.7)	(739.5)
Non-current liabilities			
Borrowings	14	(4,572.0)	(6,261.6)
Trade and other payables	16	(6.8)	(7.7)
Financial liabilities	21	(2,094.7)	(1,779.6)
Deferred grants and contributions on depreciated assets	17	(455.6)	(433.5)
Provisions for other liabilities and charges		(1.8)	(1.5)
Deferred income tax liabilities	18	(433.7)	(474.5)
		(7,564.6)	(8,958.4)
Total liabilities		(10,239.3)	(9,697.9)
Net (liabilities)/assets		(622.3)	27.3
Equity attributable to owners of the parent			
Equity shares	20	524.7	526.4
Share premium	20	70.6	70.6
Hedging reserve	20	-	(10.9)
Revaluation reserve	20	639.8	605.8
Accumulated losses		(1,857.4)	(1,164.6)
Total equity		(622.3)	27.3

Kelda Holdings Limited
Consolidated Financial Statements

for the year ended 31 March 2019

The financial statements on pages 70 to 156 were approved by a duly authorised committee of the board of directors on 15 July 2019 and signed on its behalf by:



Richard Flint

Chief Executive

15 July 2019

Kelda Holdings Limited

Kelda Holdings Limited

Consolidated statement of changes in equity

for the year ended 31 March 2019

	Note	Equity shares £m	Share premium £m	Hedging reserve £m	Revaluation reserve £m	Share based payment reserve £m	Accumulated losses £m	Total equity £m
Balance at 1 April 2017		530.9	70.6	(37.8)	440.4	5.2	(1,154.4)	(145.1)
Shares redeemed in the year		(4.5)	-	-	-	-	-	(4.5)
Total comprehensive income for the year								
Loss for the financial year		-	-	-	-	-	(68.0)	(68.0)
Revaluation of fixed assets before taxation	12	-	-	-	199.6	-	-	199.6
Income tax on revaluation of fixed assets	9	-	-	-	(33.9)	-	-	(33.9)
Remeasurement of defined benefit pension before taxation	19	-	-	-	-	-	85.0	85.0
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	-	-	0.6	0.6
Income tax on revaluation of retirement benefits	9	-	-	-	-	-	(9.1)	(9.1)
Gains on cash flow hedges taken to equity before taxation		-	-	5.7	-	-	-	5.7
Income tax on cash flow hedges	9	-	-	(3.0)	-	-	-	(3.0)
Total comprehensive income for the year		-	-	2.7	165.7	-	8.5	176.9
Transfers		-	-	24.2	(0.3)	(5.2)	(18.7)	-
Balance at 31 March 2018		<u>526.4</u>	<u>70.6</u>	<u>(10.9)</u>	<u>605.8</u>	<u>-</u>	<u>(1,164.6)</u>	<u>27.3</u>

	Note	Equity shares £m	Share premium £m	Hedging reserve £m	Revaluation reserve £m	Accumulated losses £m	Total equity £m
Balance at 1 April 2018, as reported		526.4	70.6	(10.9)	605.8	(1,164.6)	27.3
Adjustment from adoption of IFRS 9		-	-	-	-	(20.5)	(20.5)
Restated at 1 April 2018		526.4	70.6	(10.9)	605.8	(1,185.1)	6.8
Shares redeemed in the year		(1.7)	-	-	-	-	(1.7)
Total comprehensive income for the year							
Loss for the financial year		-	-	-	-	(644.5)	(644.5)
Revaluation of fixed assets before taxation	12	-	-	-	41.0	-	41.0
Income tax on revaluation of fixed assets	9	-	-	-	(7.0)	-	(7.0)
Remeasurement of defined benefit pension before taxation	19	-	-	-	-	(20.1)	(20.1)
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	-	(1.2)	(1.2)
Income tax on revaluation of retirement benefits	9	-	-	-	-	3.5	3.5
Gains on cash flow hedges taken to equity before taxation		-	-	0.9	-	-	0.9
Total comprehensive income for the year		-	-	0.9	34.0	(662.3)	(627.4)
Transfers		-	-	10.0	-	(10.0)	-
Balance at 31 March 2019		<u>524.7</u>	<u>70.6</u>	<u>-</u>	<u>639.8</u>	<u>(1,857.4)</u>	<u>(622.3)</u>

Kelda Holdings Limited
Consolidated statement of cash flows
for the year ended 31 March 2019

	<i>Note</i>	2019 £m	2018 £m
Cash flow generated from operating activities	22	497.7	584.6
Income taxes paid		(0.3)	(1.6)
Interest paid		(240.5)	(250.4)
Net cash generated from operating activities		256.9	332.6
Cash flows from investing activities			
Interest received		65.1	42.3
Increase in loans to associates and joint ventures		(1.0)	(0.5)
Net proceeds from disposal of operations		3.0	82.1
Proceeds on disposals of property, plant and equipment		4.1	1.9
Purchases of property, plant and equipment		(555.9)	(443.5)
Capital contributions		27.3	26.9
Net cash used in investing activities		(457.4)	(290.8)
Cash flows from financing activities			
Borrowings raised		390.0	390.0
Redemption of preference shares		(1.7)	(4.4)
Repayments of borrowings		(74.9)	(352.8)
Amounts paid upon restructure on inflation linked swaps		(121.7)	(250.0)
Repayment of obligations under finance leases and hire purchase agreements		(10.8)	(11.0)
Net cash generated from/(used in) financing activities		180.9	(228.2)
Net decrease in cash and cash equivalents		(19.6)	(186.4)
Cash and cash equivalents at the beginning of the year		89.7	276.1
Cash and cash equivalents at the end of the year - operations		70.1	89.7
Cash and cash equivalents at the end of the year - discontinued operations	15	-	(24.1)
Cash and cash equivalents at the end of the year - continuing operations	14	70.1	65.6

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

1. Authorisation of financial statements

The group's financial statements for the year ended 31 March 2019 were authorised for issue by the board of directors on 15 July 2019 and the balance sheet was signed on the board's behalf by Richard Flint, Chief Executive. Kelda Holdings Limited is a limited company incorporated in Jersey, and wholly and exclusively resident for tax in the UK, the registered office of which is 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting

The consolidated financial statements of Kelda Eurobond Co Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the group for the year ended 31 March 2019.

The consolidated financial statements have been prepared under the historical cost convention except for certain categories of property, plant and equipment which are held at valuation, all derivative financial instruments and financial assets which have been measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 90 to 92.

Going concern

The financial statements have been prepared using the going concern basis of accounting. The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements. This is discussed further in the Director's Report on page 65.

Basis of consolidation

The group financial statements consolidate the financial statements of Kelda Holdings Limited and its subsidiaries (see note 25). The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

On an individual company basis, individual transactions denominated in foreign currencies are translated into functional currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Revenue

Water charges

This revenue stream comprises charges to customers for water, waste water and other services excluding value added tax, and arises only in the United Kingdom.

Revenue is recognised when the performance obligations have been discharged to the customer with respect to the services detailed above, and the amounts receivable in respect of these services are deemed probable of collection. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

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

Connection and Infrastructure charges

This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network, and charges to property developers to compensate for the additional strain on the infrastructure system. The associated revenue is recognised over the expected useful life of the network.

Diversions

This revenue stream comprises income for structural alternations to the network. Revenue from diversions was previously recognised within fixed assets, under IFRIC 18. The transition to IFRS 15 has resulted in the reclassification of the revenue and associated costs from fixed assets, to the profit and loss account, with an element of deferred income on the balance sheet. Revenue is recognised over the time it takes to complete the diversion. The nature of this adjustment is set out in note 29.

Net operating costs

Net operating costs include the following:

Rental income

Rental income arising on investment properties is accounted for on a straight line basis over the lease term on on-going leases.

Other operating income

Profit relating to the sale of commercial and residential properties to third parties is included within other operating income, which is part of operating costs.

Finance income

Interest receivable is recognised 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.

Dividends payable

Interim and final dividends payable are recognised once declared.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Research and development expenditure

Research expenditure is written off in the income statement in the year in which it is incurred.

Development expenditure is charged to the income statement, except where the expenditure meets the criteria for recognition as an internally generated intangible asset as outlined in IAS 38 "Intangible assets". Where the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from the date of commissioning.

Taxation

Current tax

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset.

Deferred tax

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

- where the deferred income tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single, co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale under IFRS 5:

- Management is committed to a plan to sell;
- The asset is available for immediate sale;
- An active programme to locate a buyer has been initiated;
- The sale is highly probable, within twelve months of classification as held for sale;
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

When the operation is classified as a discontinued operation, the comparative statement of profit and loss and statement of comprehensive income/(expense) is re-presented as if the operation had been discontinued for the start of the comparative year.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on measurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated and any equity accounted investee is no longer equity accounted.

Goodwill and intangible assets

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

Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Software is amortised on a straight-line basis over its useful life. The useful life of software is estimated to be five years.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (*continued*)

Property, plant and equipment

Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets are held at valuation (see note 12). Other property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment.

Freehold land is not depreciated. Depreciation is charged on property, plant and equipment on a straight-line basis over their estimated useful economic lives, or the estimated useful economic lives of their individual major components, from the date of commissioning.

Useful economic lives are principally as follows:

Buildings	25 - 100 years
<i>Plant and equipment</i>	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
<i>Infrastructure assets</i>	
Water mains and sewers	40 - 125 years
Earth banked dams and reservoirs	200 years

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

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

Infrastructure assets, residential properties, non-specialised properties and rural estates are held at valuation with the latest valuations performed at 31 March 2019. An interim valuation is recorded in the intervening years if there has been a material change. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the income statement.

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Impairment of property, plant and equipment and goodwill

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Useful lives and residual values are reviewed annually. Where adjustments are required, these are made prospectively.

Impairment on goodwill is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised. When an entity is disposed of, any goodwill associated with it is included in the carrying amount of the operation when determining the gain or loss on disposal.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Accounting for leases

Finance leases

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised, at the lower of the fair value of the leased property and the present value of future lease payments, in property, plant and equipment and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the income statement over the shorter of the estimated useful life and the term of the lease. The capital element of lease payments reduces the obligation to the lessor and the interest element is charged to the income statement over the term of the lease in proportion to the capital amount outstanding. Any arrangement fees or other direct costs incurred on a finance lease are capitalised and amortised over the length of the lease.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Government grants which can be allocated against an individual asset are included as part of the carrying value of the asset. Government grants which cannot be allocated to individual assets are held as deferred income and released to the income statement over the life of the grant.

Investments in joint ventures and associates

The group has several contractual arrangements with third parties which represent joint ventures, these take the form of agreements to share control over other companies. The group recognises its interest in the entity's assets and liabilities using the equity method of accounting.

The group's interest in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting.

Under the equity method, the investment in the joint venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the group's share of its net assets, less distributions received and less any impairment in value of individual investments. The group income statement reflects the share of the joint ventures' and associates' results after tax.

Financial statements of joint ventures and associates are prepared for the same reporting period as the group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the group. The group ceases to use the equity method on the date from which it no longer has shared control over or significant influence in the joint venture or associate. Any unrealised gains or losses between the group and its joint ventures and associates are eliminated on consolidation.

Inventories

Inventories are stated at the lower of cost and net realisable value less any provision necessary to recognise damage and obsolescence.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Provisions

Provision is made for self-insured claims incurred but not reported, contracts which are considered onerous, accumulated losses related to associated undertakings and other known liabilities which exist at the year end as a result of a past event.

Provisions are recognised where:

- There is a present obligation as a result of a past event;
- It is probable that there will be an economic outflow to settle; and
- A reliable estimate of this outflow can be made.

Provisions are discounted to present value where the effect is material.

Financial instruments

Financial assets

Financial assets are recognised in relation to public to private concession arrangements to the extent that the group has a contractual right to receive cash of a specified and determinable amount independent of when and how much the service is used and the only risk of non-recovery is credit deterioration of the counterparty. They are measured at fair value through profit and loss.

Cash and cash equivalents

Cash equivalents include short term deposits with original maturity within three months. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts held with the same counterparty where there is an unconditional right and intention to offset.

Trade and other receivables

Trade receivables are initially recognised at fair value, and subsequently remeasured at amortised cost, net of any allowance for impairment. Invoices for unmeasured water charges are due on predetermined dates, irrespective of date of receipt. Invoices for measured water charges are billed quarterly in arrears and generally have seven day payment terms.

Provision for doubtful debts

At the date of transition, the directors of the company reviewed and assessed the group's existing trade receivables for impairment using reasonable and supportable information that is available in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. 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.

Trade and other payables

Trade payables are initially recognised at fair value, and subsequently remeasured at amortised costs.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Interest bearing loans and borrowings

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

- 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.

On transition to IFRS 9, the key change in the group's accounting policy for borrowings is to recognise the gain or loss on a non-substantial modification of debt through the profit and loss account, amortised over the life of the financial liability through the effective interest rate.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or (2) cash flow hedges.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

There has been a change in accounting estimate from the prior year in respect of the valuation of a bond. The bond has a notional value of £250.0m, and was previously priced from a public market. A publicly available market is no longer available and as such, a net present value calculation has been performed instead. This is reflected in the fair value hierarchy table in note 21, whereby the bond has moved from level 1 to level 2. The fair value movement in the current year is £11.7m.

Cash flow hedge

The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement. In the event the hedged item is no longer expected to occur or the hedge relationship ceases to be effective, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative are immediately recognised in the income statement.

There has also been a presentational change in terms of accounting for derivatives. Adopting the 'single line of account' policy under IFRS 13, the RPI uplift on the inflation linked swaps is presented within financial liabilities, where it was previously presented as part of borrowings. The associated accretion was previously included within finance costs on the profit and loss statement, but will now be presented as part of fair value movements.

Kelda Holdings Limited
Notes to the consolidated financial statements
for the year ended 31 March 2019

2. Accounting policies (continued)

Employee benefits

Pension plans

(i) Defined contribution scheme

The group operates two defined contribution schemes for those members of staff who are not members of its defined benefit scheme. Two pension plans exist under which the group pays a fixed contribution into a separate entity which operates the schemes. The other provides the employees with a lump sum on retirement. Other than this contribution, the group has no further legal or constructive obligation to make further contributions to the scheme.

Obligations for contributions to the scheme are recognised as an expense in the income statement in the year in which they arise.

(ii) Defined benefit scheme

The group operates a defined benefit scheme. A defined benefit scheme is a pension plan under which the amount of pension benefit that an employee receives on retirement is defined by reference to factors including age, years of service and compensation.

The scheme is funded by payments, determined by periodic actuarial calculations agreed between the group and the trustees to trustee administered funds.

A liability or asset is recognised in the balance sheet in respect of the group's net obligations to the scheme. The liability or asset represents the net of the present value of the defined benefit obligations at the balance sheet date, less the fair value of the scheme assets and past service costs.

The defined benefit obligation represents the estimated amount of future benefits that employees have earned in return for their services in current and prior years, discounted at a rate representing the yield on a high quality corporate bond at the balance sheet date, denominated in the same currency as the obligations and having the same terms to maturity as the related pension liability, applied to the estimated future cash outflows arising from these obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains or losses (along with any deferred tax on them) are recognised in the statement of comprehensive income.

Share capital

Ordinary shares are classified as equity.

Exceptional items

Exceptional items are items which derive from events or transactions that individually or, of a similar type, in aggregate fall outside the normal activities, or are material by value. Such items may include, but are not limited to: extreme weather events, the sale of businesses and significant asset impairments.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

Segmental reporting

The group's primary reporting format is by business segment. A segment is a component of the group which can be distinguished separately as providing a product or service within a particular environment which is subject to risks and rewards that are different from those of other segments. These segments are also indicative of the manner in which the chief operating decision maker (CODM) reviews the results of the business.

The group has identified three business segments:

- UK Regulated Water Services - Yorkshire Water.
- UK Service Operations - Kelda Water Services, Kelda Transport Management, Three Sixty and Loop.
- Property Development - Keyland.

Transfer pricing between business segments is set on an arm's length basis similar to transactions with third parties.

The group's geographical segments are determined by the location of the group's assets and operations.

Fair value estimation

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

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cashflows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cashflows. The fair value calculations have been adjusted to incorporate own and counter-party credit risk and funding 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.

Management base their estimate of discount rate on a consideration of the long term risk free interest rate for the UK, an industry specific risk factor (beta factor), a market risk premium at the date of valuation and a company specific risk factor.

Kelda Holdings Limited
Notes to the consolidated financial statements
for the year ended 31 March 2019

2. Accounting policies (continued)

New standards and interpretations

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

The group applies, for the first time, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'. The transition disclosures can be found in note 29. The changes to the accounting policies are set out below:

IFRS 15 – Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, and replaces IAS 18: revenue, and IFRIC 18: transfers of assets from customers.

The principles of IFRS 15 have been applied using the five step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations.

Revenue is recognised either when the performance obligation in the contract has been performed ("point in time") or "over time" as control of the performance obligation is transferred to the customer. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's material revenue streams are set out below:

Kelda Holdings Limited
Notes to the consolidated financial statements
for the year ended 31 March 2019

2. Accounting policies (Continued)

Type of service	IFRS 15 treatment	Nature of change in accounting policy and impacts
Provision of water and waste water services	For the group's main revenue stream the performance obligations are clear, that being the supply of clean water and the collection of waste water. Revenue from these core activities is recognised at a point in time, consistent with previous treatment.	None
New connections and infrastructure charges	Infrastructure charges are intrinsically linked with new connection charges. The infrastructure charge facilitates the provision of water and waste water services, as well as the connection activities, and the ongoing maintenance of the connection. The new connection charge and infrastructure charge on their own are without material value to the customer without the provision of water and waste water services. Revenue from new connections is recognised over the useful economic life of the asset, consistent with previous treatment.	None
Diversions	In some instances, Yorkshire Water are requested to make diversions to the network. Income is received from the requestors. Revenue from diversions activity is recognised over the time taken to complete the diversion.	Revenue was previously recognised within fixed assets, under IFRIC 18. The transition has resulted in the reclassification of the revenue and associated costs from fixed assets, to the profit and loss account, with an element of deferred income on the balance sheet. The nature of this adjustment is set out in note 29.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

On transition to IFRS 9, the key change in the group's accounting policy for financial instruments is to recognise the gain or loss on a non-substantial modification of debt through the profit and loss account, amortised over the life of the financial liability through the effective interest rate. The nature of this adjustment is set out in note 29.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. 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.

As at 1 April 2018, the directors of the company reviewed and assessed the group's existing trade receivables 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. There is no material change to the amount of the provision after undertaking this exercise.

New standards issued but not yet effective

The group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

IFRS 16	<i>Leases</i>
IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>
Amendments to IAS 19 Employee Benefits	<i>Plan Amendment, Curtailment or Settlement</i>
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the group in future periods.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

IFRS 16 - Leases

General impact of application of IFRS 16 Leases

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the group was 1 April 2019.

The group has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(a). Consequently, the group will not restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the group will:

- a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*.

This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (continued)

As at 31 March 2019, the group has non-cancellable operating lease commitments of £14.4m (2018: £17.7m).

A preliminary assessment indicates that £14.4m of these arrangements relate to leases other than short-term leases and leases of low-value assets. The group will recognise a right-of-use asset of £15.8m and a corresponding lease liability of £15.8m in respect of all these leases. The impact on profit or loss is to decrease other operating expenses by £4.7m, to increase depreciation by £1.9m and to increase interest expense by £0.3m.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £2.3m and to increase net cash used in financing activities by the same amount.

Accounting Estimates and Judgements

In the application of the company's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors consider the principal estimates made in the financial statements to be:

Assumptions relating to the defined benefit pension scheme

The present value of the pension obligation depends on a number of factors, determined on an actuarial basis, using a number of assumptions. The assumptions used in determining the valuation of the pension obligation include the discount rate of 2.40% (2017/18: 2.65%), the inflation rate of 3.25% (2017/18: 3.0%) and the mortality rates. The discount rate is determined by considering the market yields on high quality corporate bonds, at the reporting date. Other assumptions are based on current market conditions. Various sensitivities have been modelled in note 19.

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model, as described earlier in this note. Value in use is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The valuation uplift contributes to the cash generating unit valuation, and the premium on RCV applied in arriving at the valuation amount is used to formulate the terminal value used in the goodwill impairment review.

The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The discount rate applied is 8.00% (2017/18: 8.00%). A long term RPI rate has been adopted of 3.0% (2017/18: 3.0%). An increase in the discount rate to 8.5% would result in a reduction in the valuation of £20.1m.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (Continued)

Goodwill impairment testing

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. These calculations include estimates of future cash flows for the cash generating unit, and an estimate of the discount rate, which is based on consideration of the long-term risk-free interest rate for the UK, an industry specific risk factor, and a market risk premium at the date of valuation.

In reviewing goodwill for impairment, the group applied a discount rate of 5.4% (2017/18: 5.4%) and a long-term inflation rate of 3% (2017/18: 3%) to the expected future cash flows of the group. The discounted cash flow include a terminal value representing the sale of infrastructure assets and amounts to an RCV multiple of 1.18x (2017/18: 1.15x). On this basis, it was identified that an impairment of £350m has arisen. Further information regarding this impairment test can be found in note 11.

Fair value of financial instruments

The group's accounting policy for financial instruments is detailed earlier in this note. In accordance with IFRS, financial instruments are recognised in the Financial Statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting period, counter-party funding adjustments and contract interest rates, discounted at a rate that reflects own or counter-party credit risk. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 21. Particular estimation uncertainty exists in relation to counter-party funding adjustments and own and counter-party credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £1,976.9m would be £45.7m (2017/18: £29.7m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £32.1m (2017/18: £43.4m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £89.3m (2017/18: £69.7m) higher or lower were the recovery rate assumption to change by ten per cent.

Revenue recognition from household customers where payment is not considered probable

There has been a change in accounting estimate from the prior year in respect of revenue recognition from those household customers where payment is not considered probable, and this has been applied prospectively. In previous years, management estimated that revenue attributable to customers who were not deemed probable of paying their bills was immaterial, and hence no such amounts were excluded from reported revenues. Following continued improvements in the available data on a customer by customer basis, in the current year, management have revised the estimate in this regard, and as a result, billed and unbilled amounts receivable, totalling £16.8m, have not been recognised as revenue in the current year on the basis that they are not probable of collection. This reduction in revenue is offset by a consequent reduction in the bad debt charge and bad debt provision of the same amount.

Given the number of customers to whom the company provides services is significant, the estimate of those household customers who are not likely to pay their bills requires significant judgement. Management's estimate of revenue receivable that should not be recorded as revenue in the financial statements is based on amounts billed and unbilled relating to:

- household customers who have not paid their bill in over two years; and
- new household customer accounts where no payments have been received in the first six months.

Management will monitor the actual payment profile of household customers going forward and adjust their estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

2. Accounting policies (Continued)

The directors consider the principal judgements made in the financial statements to be:

Capitalisation of labour costs

Additions made to property, plant and equipment include £52.9m (2017/18: £52.6m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

Depreciation

The company's accounting policy for property, plant and equipment ('PPE') is detailed earlier in this note. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

Recognition of revenue under IFRS 15

Judgement is required to identify the parties to the contract and the performance obligations relating to capital income, being transactions relating to the provision of a network connection or ongoing access to the network. This is an area that remains under active consideration within the water industry and the accounting profession. The company have elected to continue deferring this income over the life of the associated network asset, as described earlier in this note. Revenue recognised in the year in relation to these items amounted to £8.2m, and the associated deferred income balance was £184.7m.

Recognition of a defined benefit surplus

A judgement has been made to recognise an accounting surplus on the defined benefit pension scheme. The provisions of IFRIC 14 do not apply and therefore a surplus has been recognised. The Trust Deed provides the sponsoring employer with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of, the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

Kelda Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 March 2019

3. Revenue

Year ended 31 March 2019

	UK regulated water and waste water services	UK service operations	Property development	Other companies and consolidation adjustments	Total before reallocations	Reallocation to other operating income	Total from continuing operations after reallocations
	£m	£m	£m	£m	£m	£m	£m
Total revenue	1,062.6	43.1	6.5	(42.4)	1,069.8	(5.9)	1,063.9
Inter-company revenue	(3.1)	(38.7)	(0.6)	42.4	-	-	-
External revenue	1,059.5	4.4	5.9	-	1,069.8	(5.9)	1,063.9

Year ended 31 March 2018

	UK regulated water and waste water services	UK service operations	Property development	Other companies and consolidation adjustments	Total before reallocations	Reallocation to other operating income	Total from continuing operations after reallocations
	£m	£m	£m	£m	£m	£m	£m
Total revenue	1,014.6	98.8	7.7	(100.7)	1,020.4	(7.1)	1,013.3
Inter-company revenue	(4.3)	(95.8)	(0.6)	100.7	-	-	-
External revenue	1,010.3	3.0	7.1	-	1,020.4	(7.1)	1,013.3

Kelda Holdings Limited
Notes to the consolidated financial statements
for the year ended 31 March 2019

3. Revenue (*continued*)

Timing of revenue recognition

	2019	2018
	£m	£m
At a point in time	1,050.2	999.7
Over time	13.7	13.6
	<hr/>	<hr/>
Total revenue from continuing operations	1,063.9	1,013.3
	<hr/> <hr/>	<hr/> <hr/>

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

4. Segmental information

Continuing operations

In November 2016, the group classified ten entities that make up the majority of the UK service operations segment as a discontinued operation (see note 10). During 2017/18, eight of the entities were sold. The two remaining entities were sold in December 2018. The CODM continues to monitor and review the financial results of the discontinued operation and will do so until the discontinuance is complete. The results of the discontinued operation continue to be disclosed in the UK service operations segment.

Year ended 31 March 2019

	UK regulated water and waste water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue (Note 3)	1,059.5	4.4	5.9	-	1,069.8	(5.9)	1,063.9
Depreciation, impairment and transfer from assets held for sale	(294.7)	(0.5)	-	(5.9)	(301.1)	-	(301.1)
Release of deferred income	10.3	-	-	-	10.3	-	10.3
Other operating costs	(467.8)	(37.1)	(3.9)	(6.6)	(515.4)	5.9	(509.5)
Exceptional items (Note 6)	(34.4)	-	-	(344.3)	(378.7)	-	(378.7)
	272.9	(33.2)	2.0	(356.8)	(115.1)	-	(115.1)
Share of associates' and joint ventures'							
Profit after tax							0.7
Group operating loss							(114.4)
Finance income							67.1
Finance costs							(386.8)
Fair value income							41.8
Fair value charges							(293.1)
Loss before taxation							(685.4)
Tax charge							40.6
Loss for the year attributable to owners of the parent							(644.8)

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

4. Segmental information (continued)

Discontinued operations

Year ended 31 March 2019

	UK regulated water and waste water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue	-	18.4	-	-	18.4	-	18.4
Depreciation	-	(0.1)	-	-	(0.1)	-	(0.1)
Release of deferred income	-	-	-	-	-	-	-
Other operating costs	-	(13.1)	-	-	(13.1)	-	(13.1)
Exceptional items (Note 10)	-	(0.2)	-	-	(0.2)	-	(0.2)
	-	5.0	-	-	5.0	-	5.0
Share of associates' and joint ventures' loss after tax							-
Group operating profit							5.0
Finance income							-
Finance costs							(4.8)
Fair value income							-
Fair value charges							-
Profit before taxation							0.2
Tax credit							0.1
Profit for the year attributable to owners of the parent							0.3

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

Year ended 31 March 2019

4. Segmental information *(continued)*

Year ended 31 March 2019

	UK regulated water and waste water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	8,271.3	5.4	13.2	1,257.0	9,546.9
Liabilities	(3,271.4)	(3.8)	(0.2)	(95.2)	(3,370.6)
Net debt	(5,024.7)	0.6	(0.3)	(1,774.2)	(6,798.6)
Net (liabilities)/assets	(24.8)	2.2	12.7	(612.4)	(622.3)
Other information					
Capital additions	500.1	0.4	-	-	500.5

Net debt of £6,798.6m as noted above includes cash of £56.0m and short term deposits of £14.1m which are included in the balance sheet within total assets; and borrowings of £6,868.7m which are included on the balance sheet in total liabilities. Net debt is defined in note 21, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards and £1,434.6m of loan notes issued by Kelda Eurobond Co Limited.

There are no material assets of the group located outside the United Kingdom in the year ended 31 March 2019, this being the case the group has one single geographical segment, being the United Kingdom.

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

Year ended 31 March 2018

4. Segmental information (continued)

Continuing operations

	UK regulated water and waste water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue	1,010.3	3.0	7.1	-	1,020.4	(7.1)	1,013.3
Depreciation	(286.1)	(0.2)	-	(14.3)	(300.6)	-	(300.6)
Release of deferred income	10.0	-	-	-	10.0	-	10.0
Other operating costs	(425.9)	(30.4)	(5.4)	4.8	(456.9)	7.1	(449.8)
Exceptional items (Note 10)	(8.1)	-	-	23.3	15.2	-	15.2
	300.2	(27.6)	1.7	13.8	288.1	-	288.1
Share of associates' and joint ventures' loss after tax							(0.1)
Group operating profit							288.0
Finance income							46.1
Finance costs							(440.3)
Fair value income							115.4
Fair value charges							(74.4)
Loss before taxation							(65.2)
Tax charge							(9.5)
Loss for the year attributable to owners of the parent							(74.7)

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

Discontinued operations

Year ended 31 March 2018

4. Segmental information *(continued)*

	UK regulated water and waste water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue	12.1	92.3	-	-	104.4	-	104.4
Depreciation	-	(1.1)	-	-	(1.1)	-	(1.1)
Release of deferred income	-	-	-	-	-	-	-
Other operating costs	(2.1)	(74.1)	-	-	(76.2)	-	(76.2)
Exceptional items (Note 10)	-	(0.2)	-	-	(0.2)	-	(0.2)
	10.0	16.9	-	-	26.9	-	26.9
Share of associates' and joint ventures' loss after tax					-	-	-
Group operating profit					26.9	-	26.9
Finance income							-
Finance costs							(19.6)
Fair value income							-
Fair value charges							-
Profit before taxation							7.3
Tax charge							(0.6)
Profit for the year attributable to owners of the parent							6.7

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

4. Segmental information *(continued)*

Year ended 31 March 2018

	UK regulated water and waste water services £m	UK service operations £m	Property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	7,955.2	61.4	10.6	1,608.3	9,635.5
Liabilities	(2,940.6)	(49.0)	(1.3)	(116.5)	(3,107.4)
Net debt	(4,841.2)	(20.8)	-	(1,638.8)	(6,500.8)
Net assets/(liabilities)	173.4	(8.4)	9.3	(147.0)	27.3
Other information					
Capital additions	446.4	0.2	-	-	446.6

Net debt of £6,500.8m as noted above includes cash of £35.7m and short term deposits of £54.0m which are included in the balance sheet within total assets (£24.1m in assets held for sale (note 15)); and borrowings of £6,590.5m which are included on the balance sheet in total liabilities (£48.4m in assets held for sale (note 15)). Net debt is defined in note 21, and does not include financial liabilities.

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with International Financial Reporting Standards (IFRS) and £1,329.2m of loan notes issued by Kelda Eurobond Co Limited.

There were no material assets of the group located outside the United Kingdom in the year ended 31 March 2018, this being the case the group had one single geographical segment, being the United Kingdom.

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

5. Operating costs from continuing operations before exceptional items

	2019 £m	2018 £m
Own work capitalised	(52.8)	(52.5)
Raw materials and consumables	36.1	36.1
Staff costs (note 7)	156.3	145.4
Depreciation of property, plant and equipment and impairment (note 12)	300.8	301.0
Operating lease rentals - minimum lease payments		
- other	1.7	1.8
- land and buildings	2.9	2.4
Amortisation of intangible assets (note 11)	11.9	9.8
Research and development	-	4.8
Movement of fair value of energy contracts	-	(14.4)
Net Impairment of trade receivables	5.6	19.7
Profit on disposal of property, plant and equipment	(0.4)	-
	<hr/>	<hr/>

Auditor's remuneration

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

	2019 £m	2018 £m
Fees payable to the group's auditors for:		
- The audit of company's subsidiaries pursuant to legislation	0.3	0.3
- Other assurance services	0.4	0.1
	<hr/>	<hr/>
	0.7	0.4
	<hr/>	<hr/>

In an exceptional year due to PR19 the non-audit fee for 2018/19 is 133% of the statutory audit fee. The Audit Committee reviewed this and accepted that it did not impinge on independence.

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

6. Exceptional items

Exceptional items comprise:

Exceptional items from continuing operations comprise:

	2019 £m	2018 £m
Included in operating costs:		
Profit on sale of operations	5.7	28.2
Operating costs	(34.4)	(8.1)
Impairment of assets	(350.0)	(4.9)
	<u>(378.7)</u>	<u>15.2</u>

Exceptional operating costs

£5.7m (2017/18: £28.2m) of income has been recognised as profit on the disposal of the Kelda Water Services (KWS) entities sold during the year. These items have been classified as exceptional, as they relate to an event outside the normal course of operations. The cash proceeds can be seen in the cashflow statement.

In the current year to 31 March 2019, the company has incurred £25.5m of operational costs associated with the severe weather conditions. The period of unusually low temperatures and heavy snowfall followed by a prolonged dry summer resulted in additional leakage costs attributable to increased find activity and increased number of repair and maintenance jobs. A further £6.3m operational costs have been incurred associated with the assets damaged in a flooding incident that occurred in December 2015 (2017/18: £8.1m). Legal and professional fees of £2.6m have been incurred in the current financial year in relation to the planned sale of the Non-Household Retail business. These costs have been incurred as a result of events that are not expected to recur, and as such, classification as exceptional is appropriate.

The directors have prepared an impairment test which showed that there was an impairment of goodwill of £350m for the year ended 31 March 2019 (see note 11 for details of the basis of this test).

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

6. Exceptional items (continued)

During the financial year, the group sold its 100 per cent interest in the ordinary share capital of two entities within the Kelda Water Services group (Kelda Water Services (Grampian) Limited and Aberdeen Environmental Services Limited). The total profit of these entities up to the date of disposal was £0.3m (2017/18: £96.7m profit).

Net assets disposed of and the related sale proceeds were as follows:

	2019 £m	2018 £m
Fixed assets	63.9	155.1
Current assets	36.9	31.6
Creditors	(80.8)	(113.0)
Provisions for liabilities	(12.4)	-
Net assets	7.6	73.7
Profit on sale	5.7	28.2
Sale proceeds	13.3	101.9
Satisfied by:		
Cash and cash equivalents	13.3	101.9
Net cash inflows in respect of the sale comprised:		
Cash and cash equivalents	13.3	101.9
Less: cash and cash equivalents disposed of	(10.3)	(19.8)
	3.0	82.1

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

7. Directors and employees

	2019 Continuing operations	2019 Discontinued operations	2019 Total	2018 Continuing operations	2018 Discontinued operations	2018 Total
Average monthly number of people employed by the group						
UK regulated water services	2,888	-	2,888	2,681	-	2,681
Other activities	867	45	912	840	252	1,092
	<u>3,755</u>	<u>45</u>	<u>3,800</u>	<u>3,521</u>	<u>252</u>	<u>3,773</u>
	2019 £m	2019 £m	2019 £m	2018 £m	2018 £m	2018 £m
Total employment costs:						
Wages and salaries	131.1	1.4	132.5	121.5	9.0	130.5
Social security costs	13.6	0.2	13.8	12.5	0.9	13.4
Other pension costs	11.6	0.1	11.7	11.4	0.5	11.9
	<u>156.3</u>	<u>1.7</u>	<u>158.0</u>	<u>145.4</u>	<u>10.4</u>	<u>155.8</u>

Directors' emoluments

	2019 £m	2018 £m
Aggregate emoluments	<u>2.5</u>	<u>1.8</u>
The amounts in respect of the highest paid director are as follows:		
	2019 £m	2018 £m
Aggregate emoluments	<u>1.3</u>	<u>0.9</u>

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

During the year ended 31 March 2019, one (2018: one) director was a contributory member of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in the year ended 31 March 2019, was £0.2m (2018: £0.2m).

During the year ended 31 March 2019, two (2018: two) directors were incentivised through a long term incentive plan which allows them to receive, at the discretion of the Remuneration Committee, a conditional monetary award.

In addition to the emoluments above £0.6m has been paid to one of the directors as compensation for loss of office.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

8. Finance income and finance costs

	2019 £m	2018 £m
Finance income		
Interest on bank deposits	0.3	-
Interest receivable from inflation linked swaps	51.9	33.1
Interest receivable from cross currency interest rate swaps	12.4	13.0
Net interest gain on pension scheme liabilities (note 19)	2.5	-
Finance income before fair value movements	67.1	46.1
Fair value income (note 21)	41.8	115.4
Total finance income	108.9	161.5
Finance costs		
Interest payable on guaranteed bonds	(157.0)	(152.0)
Interest payable on US Dollar bonds	(10.9)	(11.3)
Interest payable on AU Dollar bonds	(2.0)	(2.0)
Amortisation of issue costs in respect of bonds	(3.2)	(3.3)
Total finance costs for bonds	(173.1)	(168.6)
Bank loans and overdrafts	(28.9)	(28.6)
RPI accretion on inflation linked bonds	(38.1)	(54.5)
RPI accretion on inflation linked swaps	-	(48.7)
Interest payable on inflation linked swaps	(50.6)	(43.6)
Interest payable on bonds issued by Kelda Eurobond Co Limited	(106.8)	(94.8)
Finance leases	(1.6)	(6.2)
Commitment fees and miscellaneous interest	(8.5)	(9.6)
Finance costs before interest capitalisation and fair value movements	(407.6)	(454.6)
Interest capitalised	20.8	14.3
Finance costs before fair value movements	(386.8)	(440.3)
Fair value charges (note 21)	(293.1)	(74.4)
Total finance cost	(679.9)	(514.7)

For more information on guaranteed, US Dollar and AU Dollar bonds refer to note 14.

	2019 £m	2018 £m
Finance income		
Financial liabilities held at fair value through profit and loss	108.6	161.5
Interest on bank deposits and loans	0.3	-
Total finance income	108.9	161.5
Finance costs		
Financial liabilities held at fair value through profit and loss	(373.4)	(197.2)
Financial liabilities held at amortised cost	(277.6)	(155.3)
Interest on bank deposits and loans	(28.9)	(162.2)
Total finance costs for bonds	(679.9)	(514.7)

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

8. Finance income and finance costs (continued)

During the year ended 31 March 2019, the presentation of the RPI accretion on inflation linked swaps changed. In the year ended 31 March 2019, the value of £84.9m (2018: £48.7m) is included in fair value charges (note 21), as part of the movement of fair value of inflation linked swaps. In 2017/2018, it was included within finance costs.

9. Tax (credit)/charge on continuing operations

	2019 £m	2018 £m
Current tax		
UK Corporation Tax at 19% (2018: 19%)	-	0.6
Adjustments in respect of prior years	-	(0.2)
Total current tax charge to the income statement	-	0.4
Deferred tax		
UK (credit)/charge for origination and reversal of temporary differences	(44.7)	8.9
(Over)/under provision of tax in respect of previous periods	(0.6)	1.2
Effect of tax rate changes	4.7	(1.0)
Total deferred (credit)/charge to the income statement	(40.6)	9.1
Total tax (credit)/charge to the income statement	(40.6)	9.5
Tax relating to items charged to other comprehensive income		
Deferred tax:		
Actuarial(losses)/gains in respect of defined benefit pension schemes	(3.5)	9.1
Movement in fair value hedges	-	0.1
Revaluation of infrastructure assets	7.0	33.9
Tax charge in the group statement of comprehensive income	3.5	43.1

Movement in fair value hedges of £nil (2017/18: £0.1m) is charged on hedges relating to continuing operations. In 2017/18 an additional £2.9m of deferred tax is included within the statement of comprehensive income for tax charged on movement in fair value hedges. This tax is charged on hedges relating to discontinued operations.

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2018: 19%) to the loss on ordinary activities before tax is as follows:

	2019 £m	2018 £m
Loss from continuing operations before taxation (excluding joint ventures)	(686.1)	(65.1)
Share of associates' and joint ventures' loss before tax	0.7	(0.1)
	(685.4)	(65.2)
Current and deferred tax on Group loss on ordinary activities at the standard UK tax rate	(130.2)	(12.4)
Effects of:		
Expenses not deductible for tax purposes	76.7	43.3
Income not taxable	(4.5)	(25.9)
Difference in tax rates	4.7	(1.0)
Adjustments in relation to prior periods	(0.6)	1.0
Movement in deferred tax not recognised	13.3	4.5
Group current and deferred tax (credited)/charged to the income statement	(40.6)	9.5

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

9. Tax (credit)/charge on continuing operations (continued)

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. (2017/18: 19%).

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016 and accordingly the deferred tax liability at 31 March 2018 has been calculated using this rate.

The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & Customs' agreement of the basis on which the group's tax returns are filed. In assessing these tax uncertainties, management is required to make judgements, evaluating the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that will be necessary to provide. The nature of the group's uncertain tax positions can relate to complex tax legislation that can be open to interpretation. Original estimates are always refined as additional information becomes known.

Any uncertain tax positions are assessed using internal expertise, experience and judgment together with assistance and opinions from professional advisors. The deferred tax credit for continuing operations for the year reflected in the income statement relates to the following:

	2019 £m	2018 £m
Property, plant and equipment	(16.9)	(4.1)
Financial instruments	(25.4)	12.1
Retirement benefit obligations	1.7	4.3
Losses	-	(3.2)
Deferred tax (credit)/charge	(40.6)	9.1

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

10. Discontinued operations

In November 2016 the group classified ten entities that make up the majority of the Kelda Water Services group as held for sale (see note 15). During 2017/18, eight of the entities were sold. The remaining two entities were sold in December 2018.

At 31 March 2018, the group classified three statutory entities as well as the relevant element of Yorkshire Water Services as held for sale, in connection with the withdrawal from the non-household retail market. The nature of the sale has since changed; the businesses themselves will not be sold, only identified assets. Other assets and liabilities will be retained by the group. As a result, the components have not been classified as held for sale or a discontinued operation in the current year.

Results from discontinued operations

	2019	2018
	£m	£m
Revenue	24.2	168.3
Elimination of intersegment revenue	(5.8)	(63.9)
Total Revenue	18.4	104.4
Expenses	(13.2)	(147.9)
Exceptional items	(0.2)	(0.2)
Elimination of expenses relating to inter segment sales	-	70.6
Finance expenses	(4.8)	(12.9)
External interest	-	(6.7)
Total expenses	(18.2)	(97.1)
Profit before tax	0.2	7.3
Income tax credit/(charge)	0.1	(0.6)
Profit after tax	0.3	6.7

The profit after tax from the discontinued operations of £0.3m (2017/18: £6.7m) is attributable entirely to the owners of the company.

Cash flows from discontinued operations

	2019	2018
	£m	£m
Net cash (used in)/generated from operating activities	(20.5)	10.1
Net cash outflow from investing activities	(1.7)	(7.2)
Net cash outflow from financing activities	(1.9)	(3.6)
Net cash outflows for the year	(24.1)	(0.7)

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

11. Intangible assets

	Software £m	Goodwill £m	Total £m
Cost			
At 1 April 2018	77.6	1,800.3	1,877.9
Additions	70.2	-	70.2
Transfer from assets held for sale	1.4	-	1.4
Disposals	(3.9)	-	(3.9)
At 31 March 2019	145.3	1,800.3	1,945.6
Accumulated amortisation			
At 1 April 2018	19.9	400.0	419.9
Amortisation	11.9	-	11.9
Impairment	-	350.0	350.0
Transfer from assets held for sale	0.9	-	0.9
Disposals	(0.7)	-	(0.7)
At 31 March 2019	32.0	750.0	782.0
Net book value at 31 March 2019	113.3	1,050.3	1,163.6
Net book value at 31 March 2018	57.7	1,400.3	1,458.0

Impairment tests for goodwill

Existing goodwill of £1,050.3m (2017/18: £1,400.3m) is all allocated to the UK regulated water services business segment. The recoverable amount of the UK regulated water services segment is determined based on a value in use calculation, using post tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long term business modelling covering a 25 year period. The period of cash flows of 25 years is deemed appropriate as it aligns with the long term planning of the regulated business as determined by Ofwat. The discounted cash flows include a terminal value representing the sale of infrastructure assets, which amounts to an RCV multiple of 1.18x (2017/18: 1.15x). The underlying cash flows in the model are also a key assumption. The discount and inflation rates applied and terminal value have been determined based on risk factors specific to the industry and circumstances of the group. See note 2 for further detail.

The key assumptions used for the value-in-use calculation are as follows:

	2019	2018
Long term inflation	3.00%	3.00%
Discount rate (post-tax)	5.40%	5.40%
Terminal value (multiple of RCV)	1.18x	1.15x

A further key assumption is the cash flow projections included in the value in use calculation, which include planned efficiency targets. The long term inflation rate used is based on the government Consumer Price Index (CPI) target of 2% plus 1% to convert to Retail Price Index (RPI). The cash flows have been inflated by RPI, and discounted back at the same rate, as permitted under IAS 36.

Transactions in the sector as well as the cash flow forecasts used in the price review process have indicated that the business may be less valuable than in the prior year. As such, the directors have performed an impairment review which showed that there was an impairment of goodwill at 31 March 2019 of £350.0m (year ended 31 March 2018: impairment of £nil).

As this is a critical accounting estimate (see note 2), management have considered the sensitivity of the key assumptions by assessing the change required to result in a material (in excess of £20m) change. These are as follows: an increase to the discount rate of 0.012%, a decrease to the terminal value multiple of 0.005 and a decrease in inflation rate of 0.6%.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

12. Property, plant and equipment

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2018	2,043.4	4,716.6	3,488.4	545.8	10,794.2
Additions at cost	3.2	86.6	71.2	339.5	500.5
Transfers on commissioning	75.3	35.5	52.2	(163.0)	-
Transfers from assets held for sale	-	-	0.4	-	0.4
Disposals	(229.8)	(0.5)	(899.6)	-	(1,129.9)
Revaluation	(2.9)	43.9	-	-	41.0
At 31 March 2019	1,889.2	4,882.1	2,712.6	722.3	10,206.2
Accumulated depreciation					
At 1 April 2018	595.0	263.8	2,232.0	-	3,090.8
Charge for the year	32.2	88.3	180.0	-	300.5
Impairment	0.3	-	-	-	0.3
Transfer from assets held for sale	-	-	0.3	-	0.3
Disposals	(229.8)	(0.3)	(899.4)	-	(1,129.5)
At 31 March 2019	397.7	351.8	1,512.9	-	2,262.4
Net book amount at 31 March 2019	1,491.5	4,530.3	1,199.7	722.3	7,943.8

During the year the group capitalised borrowing costs amounting to £20.8m (2018: £14.3m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.31% (2018: 3.49%).

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

12. Property, plant and equipment (continued)

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2017	2,014.8	4,403.6	3,372.1	389.0	10,179.5
Additions at cost	8.5	57.5	88.3	292.3	446.6
Grants and contributions	-	-	(0.6)	(4.6)	(5.2)
Transfers on commissioning	23.1	55.6	52.2	(130.9)	-
Transfer to intangible assets	-	-	(3.6)	-	(3.6)
Disposals	(2.7)	-	(16.4)	-	(19.1)
Transfer to assets held for sale	-	-	(3.6)	-	(3.6)
Revaluation	(0.3)	199.9	-	-	199.6
At 31 March 2018	2,043.4	4,716.6	3,488.4	545.8	10,794.2
Accumulated depreciation					
At 1 April 2017	559.9	181.3	2,060.1	-	2,801.3
Charge for the year	38.1	82.5	179.4	-	300.0
Impairment	1.0	-	-	-	1.0
Transfer to assets held for sale	-	-	(2.7)	-	(2.7)
Disposals	(4.0)	-	(4.8)	-	(8.8)
At 31 March 2018	595.0	263.8	2,232.0	-	3,090.8
Net book amount at 31 March 2018	1,448.4	4,452.8	1,256.4	545.8	7,703.4

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost	28.2	71.3	65.4	164.9
Depreciation	(9.9)	(31.8)	(53.3)	(95.0)
Net book amount at 31 March 2019	18.3	39.5	12.1	69.9
Net book amount at 31 March 2018	18.8	40.6	14.4	73.8

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

12. Property, plant and equipment *(continued)*

Revaluation - Infrastructure assets

The company's infrastructure assets were valued at 31 March 2019. This valuation was performed in accordance with IAS 16 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

IAS 16 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plant and equipment, an entity to estimate fair value using an income approach. Having considered the requirement of IAS 16, management concluded that the most reliable valuation method to determine the current value for the tangible assets of a UK water company is a two-step approach:

- Estimating the business value in use ("VIU"), using a discounted cash flow ("DCF") model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value ("RCV"), and;
- Allocating the VIU of the business (less relevant working capital balances) to individual classes of tangible assets.

The increase in infrastructure assets valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation of £43.9m, before deferred tax, was recognised in the year ended 31 March 2019 (2018: £199.9m).

Revaluation - Land and buildings

Certain categories of the company's land and buildings are also held under a revaluation model, on the basis of existing use, and were valued by independent qualified valuers as at 31 March 2019.

The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

- Non-specialist properties Cushman & Wakefield Limited
- Rural estates Carter Jones LLP
- Residential properties Savills (L&P) Limited

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is reflected in intervening years based on directors' valuations.

The decrease in valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve to the extent a surplus was previously recognised. A revaluation loss of £2.9m, before deferred tax and adjustment for historical depreciation, was recognised in the revaluation reserve in the year ended 31 March 2019 (2018: £nil). A charge of £0.3m was also recognised in operating expenses with respect to this valuation.

Categories of assets revalued as at 31 March 2019 are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	4,530.3	3,865.3
Non-specialist properties	15.2	13.4
Rural estates	52.1	0.5
Residential properties	2.5	-
Net book amount of assets revalued	4600.1	3,879.2

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

12. Property, plant and equipment *(continued)*

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

	Revalued amount £m	Historical cost basis £m
1 April 2017	76.6	14.9
Disposal of revalued assets	(0.8)	-
Depreciation and impairment	(2.2)	(0.6)
	<hr/>	<hr/>
1 April 2018	73.6	14.3
Depreciation and impairment	(2.9)	-
Revaluation loss	(0.9)	(0.4)
	<hr/>	<hr/>
31 March 2019	69.8	13.9
	<hr/> <hr/>	<hr/> <hr/>

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

	Revalued amount £m	Historical cost basis £m
At valuation/cost	5,936.4	5,364.4
Aggregate depreciation	(1,406.1)	(1,499.2)
	<hr/>	<hr/>
Net book amount of assets revalued	4,530.3	3,865.2
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Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

13. Trade and other receivables

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade receivables	139.6	114.8
Provision for impairment of trade receivables	(23.6)	(35.0)
	116.0	79.8
Prepayments and accrued income	102.3	65.7
Other tax and social security	12.1	12.6
Other receivables	9.4	0.5
	239.8	158.6

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 21 for further details of credit risks associated with financial instruments.

Trade and other receivables totalling £nil as at 31 March 2019 (2017/18: £68.6m) have been transferred to assets held for sale (note 15). This represents trade receivables of £nil (2017/18: £51.4m) due in less than one year, plus £nil (2017/18: £17.2m) Prepayments and accrued income due in less than one year.

In determining the recoverability of a trade receivable, the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Yorkshire Water Services Limited, which represents 99.6% of group turnover and 99.7% of net trade receivables. Yorkshire Water has a statutory obligation to provide water and waste water services to domestic customers within its region and therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all the domestic households within its region.

The expected credit loss rate is 2.2%.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

13. Trade and other receivables (continued)

As at 31 March 2019

	Not due	Less than 1 year overdue	Past due Between 1 and 2 years overdue	Past due Between 2 and 3 years overdue	Past due Between 3 and 4 years overdue	Past due More than 4 years overdue	Total
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	0.7	91.7	22.8	11.6	6.2	6.6	139.6
Allowance for doubtful receivables	-	(2.5)	(4.6)	(4.7)	(5.2)	(6.6)	(23.6)
Expected credit loss (%)	-	2.7	20.2	40.5	83.9	100	16.9

As at 31 March 2018

	Not due	Less than 1 year overdue	Past due Between 1 and 2 years overdue	Past due Between 2 and 3 years overdue	Past due Between 3 and 4 years overdue	Past due More than 4 years overdue	Total
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	0.6	71.0	21.6	11.1	5.8	4.7	114.8
Allowance for doubtful receivables	-	(12.3)	(7.2)	(5.8)	(5.0)	(4.7)	(35.0)
Expected credit loss (%)	-	17.3	33.3	52.3	86.2	100	30.5

The movement in the expected credit loss percentage year on year is as a result of the adjustment posted for revenue that is not probable to be collected. This is explained in note 2.

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

	2019 £m	2018 £m
Provision at 31 March 2018	35.0	31.9
Charge in the year	5.6	19.6
Cash receipts	-	0.4
Amounts written off	(17.0)	(16.9)
Provision at 31 March 2019	23.6	35.0

In all cases, the fair value of trade and other receivables is considered to be the carrying value as stated above.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

14. Financing

(i) Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents	56.0	31.5
Short term deposits	14.1	34.1
	<u>70.1</u>	<u>65.6</u>

At 31 March 2019, the group had available £539.1m (2018: £649.0m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2019 £m	2018 £m
Current borrowings:		
Bank borrowings	48.7	47.9
Finance lease liabilities	14.2	12.6
Other borrowings	325.0	220.0
Fixed rate guaranteed bonds due in less than 5 years	474.2	-
Bonds issued by Kelda Eurobond Co Limited	1,434.6	-
	<u>2,296.7</u>	<u>280.5</u>

	2019 £m	2018 £m
Non-current borrowings:		
Bank borrowings	695.4	296.9
Fixed rate guaranteed bonds due in less than 5 years	213.8	797.6
Fixed rate guaranteed bonds due in more than 5 years	1,907.6	1,944.4
Inflation linked guaranteed bonds due in more than 5 years	1,249.3	1,199.1
Floating rate bonds due in more than 5 years	74.3	74.3
RPI uplift on inflation linked swaps	-	172.1
Fixed rate US Dollar bonds due in less than 5 years	313.8	192.5
Fixed rate US Dollar bonds due in more than 5 years	-	125.7
Fixed rate AUS Dollar bonds due in more than 5 years	30.0	29.6
Bonds issued by Kelda Eurobond Co Limited	-	1,329.2
Finance lease liabilities	87.8	100.2
	<u>4,572.0</u>	<u>6,261.6</u>

During the year ended 31 March 2019, the presentation of the RPI uplift on inflation linked swaps changed. As at 31 March 2019, the value of £127.3m (2018: £172.1m) is included in financial liabilities (note 21), included within the inflation linked swaps balance. In 2018, it was included within non-current borrowings.

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

14. Financing *(continued)*

(ii) Borrowings *(continued)*

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

Guaranteed bonds due 2019 £274.9m (2018: £274.7m)

These bonds are repayable in one amount on 21 August 2019. Interest is charged at 6.0%.

Guaranteed bonds due 2020 £199.3m (2017: £198.7m)

These bonds are repayable in one amount on 17 February 2020. Interest is charged at 5.75%.

Guaranteed bonds due 2023 £208.3m (2018: £206.2m)

These bonds are repayable in one amount on 21 February 2023. Interest is charged at 6.5876%.

Guaranteed bonds due 2023 £5.5m (2018: £5.2m)

These bonds are repayable in one amount on 21 February 2023. Interest is charged at 5.375%.

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

Guaranteed bonds due 2027 £6.7m (2018: £6.6m)

These bonds are repayable in one amount on 28 May 2027. Interest is charged at 5.5%.

Guaranteed bonds due 2027 £131.0m (2018: £130.3m)

These bonds are repayable in one amount on 28 May 2027. Interest is charged at 6.454%.

Guaranteed bonds due 2028 £59.8m (2018: £59.8m)

These bonds are repayable in one amount on 22 September 2028. Interest is charged at 2.03%.

Guaranteed bonds due 2029 £262.2m (2018: £273.7m)

These bonds are repayable in one amount on 1 August 2029. Interest is charged at 3.625%.

Guaranteed bonds due 2029 £102.7m (2018: £100.8m)

These bonds are repayable in one amount on 30 October 2029. Interest is charged at 3.54%.

Guaranteed bonds due 2031 £267.3m (2018: £256.5m)

These bonds are repayable in one amount on 17 April 2031. Interest is charged at 6.6011%.

Guaranteed bonds due 2031 £0.8m (2018: £0.8m)

These bonds are repayable in one amount on 17 April 2031. Interest is charged at 6.625%.

Guaranteed bonds due 2031 £49.8m (2018: £49.8m)

These bonds are repayable in one amount on 22 September 2031. Interest is charged at 2.14%.

Guaranteed bonds due 2033 £49.8m (2018: £49.8m)

These bonds are repayable in one amount on 22 September 2033. Interest is charged at 2.21%.

Guaranteed bonds due 2033 (Class B) £105.5m (2018: £103.4m)

These bonds are repayable in one instalment on 13 June 2033. Interest is charged at 4.965%.

Guaranteed bonds due 2034 £49.8m (2018: £nil)

These bonds are repayable in one amount on 28 September 2034. Interest is charged at 3.08%.

Guaranteed bonds due 2036 £39.9m (2018: £39.8m)

These bonds are repayable in one amount on 22 September 2036. Interest is charged at 2.30%.

Guaranteed bonds due 2036 £49.8m (2018: £49.8m)

These bonds are repayable in one amount on 22 September 2036. Interest is charged at 2.30%.

Guaranteed bonds due 2037 £186.0m (2018: £185.3m)

These bonds are repayable in one amount on 28 May 2037. Interest is charged at 5.5%.

Guaranteed bonds 2038 £49.8m (2018: £nil)

These bonds are repayable in one amount on 28 September 2038. Interest is charged at 3.17%.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

14. Financing (continued)

(ii) Borrowings (continued)

Guaranteed bonds due 2039 £303.4m (2018: £303.8m)

These bonds are repayable in one amount on 19 August 2039. Interest is charged at 6.375%.

Guaranteed bonds due 2046 (Class B) £193.3m (2018: £190.7m)

These bonds are repayable in one amount on 22 March 2046 and have an associated *step-up and call date* on 22/03/2023). Interest is charged at 3.75%

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

Guaranteed bonds due 2033 £192.8m (2018: £174.5m)

These bonds are repayable in one amount on 29 July 2033. Interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the Retail Price Index (RPI).

Guaranteed bonds due 2033 £(0.8m) (2018: £nil)

These bonds are repayable in one amount on 29 July 2033. Interest is charged at 3.048%% multiplied by an index ratio and the principal amount is increased semi-annually in line with the Retail Price Index (RPI).

Guaranteed bonds due 2039 £356.4m (2018: £348.4m)

These bonds are repayable in one amount on 30 December 2039. Interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2041 £59.3m (2018: £57.8m)

These bonds are repayable in one amount on 30 December 2041. Interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2042 £59.1m (2018: £57.5m)

These bonds are repayable via an amortisation profile with the final amount due on 22 May 2042. Interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2050 £79.4m (2018: £76.8m)

These bonds are repayable in one amount on 1 February 2050. Interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2051 £141.4m (2018: £135.9m)

These bonds are repayable in one amount on 1 August 2051. Interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2054 £101.7m (2018: £98.3m)

These bonds are repayable in one instalment on 1 February 2054. Interest is charged at 1.75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2056 £142.9m (2018: £137.6m)

These bonds are repayable in one amount on 1 August 2056. Interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2058 £117.1m (2018: £113.2m)

These bonds are repayable in one amount on 1 February 2058. Interest is charged at 1.7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

The group has an early repayment option on all of the above bonds, subject to the agreement of the issuer.

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

14. Financing *(continued)*

(ii) Borrowings *(continued)*

Fixed rate US Dollar (USD) bonds

\$30.0m guaranteed USD fixed rate bonds due 2018 £nil (2018: £21.3m)

These bonds are repayable in one amount on 13 December 2021. Interest is charged at 3.18%.

\$15.0m guaranteed USD fixed rate bonds due 2019 £nil (2018: £10.6m)

These bonds are repayable in one amount on 5 January 2022. Interest is charged at 3.18%.

\$115.0m guaranteed USD fixed rate bonds due 2021 £87.8m (2018: £80.3m)

These bonds are repayable in one amount on 13 December 2021. Interest is charged at 3.77%.

\$40.0m guaranteed USD fixed rate bonds due 2022 £30.5m (2018: £27.9m)

These bonds are repayable in one amount on 5 January 2022. Interest is charged at 3.77%.

\$75.0m guaranteed USD fixed rate bonds (Class B) due 2022 £57.2m (2018: £52.4m)

These bonds are repayable in one amount on 5 January 2022. Interest is charged at 5.07%.

\$150.0m guaranteed USD fixed rate bonds due 2023 £115.3m (2018: £104.8m)

These bonds are repayable in one amount on 13 December 2023. Interest is charged at 3.87%.

\$30.0m guaranteed USD fixed rate bonds due 2024 £23.0m (2018: £29.6m)

These bonds are repayable in one amount on 5 January 2024. Interest is charged at 3.87%.

Fixed rate Australian Dollar bonds

\$50m guaranteed Australian Dollar (AUD) bonds due 2023 £30.0m (2018: £29.6m)

These bonds are repayable in one amount on 26 April 2023. Interest is charged at 5.875%.

Bank and Term loans

(i) Bank loans within long term borrowings relate to:

- Loan facilities of £36.5m with maturities between 1 and 2 years.
- Loan facilities of £49.8m with maturities between 2 and 5 years.
- Loan facilities of £252.6m with maturities in more than 5 years.

(ii) Term loans within long term borrowings relate to:

- A fixed rate term facility of £49.9m due July 2031 with interest charged at 2.881%.
- An inflation (Consumer Price Index or CPI) linked term facility of £25.4m due July 2031 with interest charged at 0.8125% multiplied by an index ratio and the principal amount is increased semi-annually in line with CPI.
- A inflation (CPI) linked term facility of £99.7m due March 2029 with interest is charged at 0.4745% multiplied by an index ratio and the principal amount is increased semi-annually in line CPI.

The long term bank loans stated above include £255.8m (£260.0m loan less £4.2m unamortised issue costs) held at Kelda Finance (No.2) Limited.

Bonds issued by Kelda Eurobond Co Limited £1,434.6m (2018: £1,329.2m)

These bonds refer to a PIK facility agreement entered on 8 February 2008. The final redemption date under this PIK facility agreement is 8 February 2020. Interest is charged at 7.0% plus LIBOR. Interest is rolled-up and added to the outstanding balance sheet amount on an annual basis.

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

14. Financing *(continued)*

(iii) Finance leases

	Minimum lease payments 2019 £m	Minimum lease payments 2018 £m
Amounts payable under finance leases:		
No later than 1 year	16.5	15.0
Later than 1 year and no later than 5 years	22.2	33.6
Later than 5 years	77.9	81.7
	<hr/>	<hr/>
	116.6	130.3
Less: future finance charges on finance lease liabilities	(14.6)	(17.5)
	<hr/>	<hr/>
Present value of lease obligations	102.0	112.8
	<hr/>	<hr/>
Amount due for settlement within 12 months	14.2	12.6
Amount due for settlement after 12 months	87.8	100.2
	<hr/>	<hr/>
	102.0	112.8
	<hr/>	<hr/>

The weighted average lease term is 16.3 years (2018: 16.6 years). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

15. Assets held for sale

Assets and liabilities of the disposal group

In November 2016 the group classified ten entities that made up the majority of the Kelda Water Services group as held for sale. During 2017/18, eight of the entities were sold. The remaining two entities were sold in December 2018.

During 2017/18, the group classified three statutory entities as well as the non-household retail element of Yorkshire Water Services Limited as held for sale, in connection with the withdrawal from the non-household retail market. The nature of the sale has since changed; there will no longer be a share sale, instead specific assets from those components will be sold. As a result, the components have not been classified as held for sale or a discontinued operation in the current year.

At 31 March 2018 the disposal group was stated at its book value at the date it met the recognition of a disposal group held for sale. Management assessed the fair value of the disposal group using expected selling price based on actual bids received. The fair value of the disposal group was higher than the book value and therefore the carrying amount of the disposal group in the financial statements was presented as the book value. The disposal group comprised the following assets and liabilities:

	2019 £m	2018 £m
Intangible assets	-	50.2
Financial assets	-	15.0
Property, plant and equipment	-	0.9
Trade and other receivables	-	68.6
Tax assets	-	0.9
Inventories	-	0.7
Cash and cash equivalents	-	24.1
	<hr/>	<hr/>
Assets held for sale	-	160.4
	<hr/>	<hr/>
	2019 £m	2018 £m
Trade and other payables	-	(30.5)
Borrowings	-	(48.4)
Financial liabilities	-	(10.7)
Deferred income tax liabilities	-	(13.5)
	<hr/>	<hr/>
Liabilities held for sale	-	(103.1)
	<hr/>	<hr/>

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

16. Trade and other payables

	2019	2018
	£m	£m
Amounts falling due within one year:		
Trade payables	100.6	90.5
Capital payables	102.0	95.5
Social security and other taxes	3.4	3.0
Receipts in advance	61.5	59.0
Interest payable	85.8	84.5
Other payables	13.7	13.4
	367.0	345.9
Amounts falling due after more than one year:		
Interest payable	3.1	3.8
Other payables	3.7	3.9
	6.8	7.7

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value.

Trade and other payables totalling £nil (2017/18: £30.5m) (£nil due within one year (2017/18: £29.3m), £nil due after more than one year (2017/18: £1.2m)) have been transferred to Assets held for sale (note 15).

17. Deferred grants and contributions on depreciated assets

	2019	2018
	£m	£m
Amounts falling due within one year:		
Contributions to depreciated assets	11.0	10.0
Amounts falling due after more than one year:		
Contributions to depreciated assets	455.6	433.5

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

18. Deferred income tax liabilities

	Property, plant and equipment £m	Financial instruments £m	Pension obligations £m	Total £m
At 1 April 2017	775.4	(353.4)	(0.7)	421.3
(Credit)/charge to income statement	(7.3)	12.1	4.3	9.1
Charge to equity	33.9	0.2	9.1	43.2
Movement in exceptional items relating to company disposals	0.8	0.1	-	0.9
	<u>802.8</u>	<u>(341.0)</u>	<u>12.7</u>	<u>474.5</u>
At 1 April 2018				
Charge/(credit) to income statement	(16.9)	(25.4)	1.7	(40.6)
Charge/(credit) to equity	7.0	(4.2)	(3.5)	(0.7)
Movement in exceptional items relating to company disposals	0.5	-	-	0.5
	<u>793.4</u>	<u>(370.6)</u>	<u>10.9</u>	<u>433.7</u>
At 31 March 2019				

The group has unrecognised capital losses of £nil (2018: £14.7m) which are available indefinitely against future eligible capital profits of the group. No deferred tax asset was recognised on capital losses in 2018 as their utilisation was not foreseen.

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

19. Pensions

(i) Characteristics of and risks associated with the group's schemes

The group sponsors a UK pension scheme, called the Kelda Group Pension Plan (KGPP). This scheme was previously sponsored by Kelda Group Limited (formerly plc) before its acquisition by Saltaire Water Limited. The KGPP has a number of benefit categories providing benefits on a defined benefit basis and a defined contribution basis.

The responsibility for the governance of the group's defined benefit pension scheme lies with the Pension Trustees. The scheme is managed by a Trustee board (the Trustee) whose role is to ensure that the Scheme is administered in accordance with the Scheme rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee is solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The board of Trustees must be composed of representatives of the company and plan participants in accordance with the Scheme's regulations.

The majority of members paid contributions over the year ended 31 March 2019 at rates of 5%, 7%, or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The group contributed 17.0% of pensionable pay. The group also paid lump sum deficit contributions of £1.2m per month in the year to 31 March 2019.

An accrual for unfunded benefits of £12.3m has been included in the group's financial statements at 31 March 2019 (2018: £10.7m).

Risk exposure of the defined benefit scheme

Whilst the group is not exposed to any unusual, entity specific or scheme specific risks in its defined benefit pension scheme, it is exposed to a number of significant risks, detailed below:

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

19. Pensions (continued)

Inflation rate risk: The Trustees of the KGPP have entered into an inflation mechanism with the group. This has been entered into as part of a de-risking mandate agreed with the Pension Trustee and is aimed at reducing the volatility in future funding and contributions. The swap mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 3.0% per annum. In periods when actual inflation is higher than 3.0%, the group will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the principal subsidiary of the group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on high quality corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the value of bond holdings.

Longevity risk: The majority of the scheme's obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the plan's liabilities.

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension liability on the group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the pension expense in the group's income statement.

The ultimate cost of the defined benefit obligations to the group will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the actual cost may be higher or lower than expected.

(ii) Major assumptions

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Limited, on the basis of annual valuations using the projected unit credit method.

	2019 %	2018 %
Inflation (RPI)	3.25	3.00
Inflation (CPI)	2.25	2.00
Rate of increase in salaries	3.25	3.00
Discount rate for scheme liabilities	2.40	2.65
Life expectancy for a male pensioner aged 60 (in years)	26.30	26.20
Projected life expectancy at age 60 for male aged 40 (in years)	27.80	27.80

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

19. Pensions *(continued)*

(iii) Scheme assets and liabilities

Scheme assets are stated at their bid values at the respective balance sheet dates.

To develop the expected long-term rate of return on assets assumption, the group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

	2019 £m	2018 £m
Fair value of scheme assets		
Equities	252.3	237.6
Bonds	234.3	243.6
Property	90.0	88.5
Other	957.7	916.0
Total value of scheme assets	1,534.3	1,485.7
Present value of scheme liabilities	(1,460.7)	(1,400.9)
Post employment benefit surplus	73.6	84.8

The pension plan has not invested in any of the group's own financial instruments nor in properties or other assets used by the group.

(iv) Analysis of the amounts included within the financial statements

	2019 £m	2018 £m
Analysis of amount charged to operating costs:		
Current service cost	12.2	14.3
Past service cost	1.5	-
Net interest credit on pension scheme	(2.5)	-
Administrative expenses and taxes	3.8	1.5
Amounts charged to the income statement	15.0	15.8
Analysis of amounts recognised in group statement of comprehensive income:		
Return on plan assets (excluding interest income)	(77.9)	(15.5)
Effect of changes in demographic assumptions	3.7	(9.6)
Effect of changes in financial assumptions	116.7	(59.9)
Experience adjustment	(22.4)	-
Actuarial loss/(gain) recognised in the group statement of comprehensive income	20.1	(85.0)
Total defined benefit cost/(income) recognised in the income statement and statement of comprehensive income	35.1	(69.2)

Actuarial gains and losses are recognised as they occur in the group statement of comprehensive income.

The total employer contributions to the defined benefit plans for the year ending 31 March 2019 were £23.9m (2018: £24.3m). The total employer contributions to the defined contributions plan for the year ending 31 March 2019 were £1.8m (2018: £1.1m).

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

19. Pensions (continued)

(v) Reconciliation of opening and closing retirement benefit liabilities and assets

	2019 £m	2018 £m
Movements in the defined benefit obligation		
At 1 April	(1,400.9)	(1,490.8)
Current service cost	(12.2)	(14.3)
Past service cost	(1.5)	-
Interest expense	(36.0)	(36.4)
Remeasurements:		
Actuarial gains - demographic assumptions	(3.7)	9.6
Actuarial gains/(losses) - financial assumptions	(116.7)	59.9
Experience adjustment	22.4	-
Benefits paid	87.9	71.1
At 31 March	(1,460.7)	(1,400.9)
The total defined benefit obligation comprises:		
Amounts owing to active members	(385.3)	(392.8)
Amounts owing to deferred members	(242.7)	(223.9)
Amounts owing to retired members	(832.7)	(784.2)
Total defined benefit obligation at 31 March	(1,460.7)	(1,400.9)
	2019 £m	2018 £m
Changes in the fair value of scheme assets:		
At 1 April	1,485.7	1,482.1
Return on plan assets (excluding interest income)	77.9	15.5
Interest income	38.5	36.4
Employer contributions	23.9	24.3
Benefits paid	(87.9)	(71.1)
Administrative expenses paid from plan assets	(3.8)	(1.5)
At 31 March	1,534.3	1,485.7

The post employment benefit surplus of £73.6m (2018: £84.8m) net amount is presented in the balance sheet under non-current assets.

(vi) Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of scheme liabilities and the resulting pension charge in the income statement and on the net defined benefit pension scheme liability is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes' assets remain unchanged, and are not intended to represent changes that are at the extremes of possibility.

The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

19. Pensions (continued)

(vi) Sensitivity analysis (continued)

Analysis of the impact on the net balance sheet position:

	Base 2019 £m	Increase 0.25% discount rate £m	Decrease 0.25% inflation rate £m	Mortality minus one year age rating £m
Fair value of scheme assets	1,534.3	1,534.3	1,534.3	1,534.3
Present value of defined benefit obligation	(1,460.7)	(1,397.5)	(1,403.6)	(1,517.1)
Surplus in the scheme	73.6	136.8	130.7	17.2

Actuarial assumptions used in sensitivity analysis:

	Base 2019 %	Increase 0.25% discount rate %	Decrease 0.25% inflation rate %	Mortality minus one year age rating %
Discount rate	2.40	2.65	2.40	2.40
Rate of RPI assumption	3.25	3.50	3.00	3.25
Rate of CPI assumption	2.25	2.50	2.00	2.25
Rate of salary increase	3.25	3.25	3.00	3.25

The inflation assumption sensitivity applies to both the assumed rate of increase in the Consumer Price Index (CPI) and the Retail Price Index (RPI), and include the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

Maturity profile of defined benefit obligation:

The following table provides information on the weighted average duration of the defined benefit pension obligation:

	2019 Years	2018 Years
Duration of the defined benefit obligation	17	17

The following table provides information on the distribution and timing of benefit payments:

	£m
Within 12 months	44.4
Between 1 and 2 years	45.5
Between 2 and 3 years	46.7
Between 3 and 4 years	48.0
Between 4 and 5 years	49.2
Between 5 and 10 years	266.0
Between 10 and 17 years	435.0

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

19. Pensions (continued)

(vi) Sensitivity analysis (continued)

Funding arrangements

The last triennial funding valuation of the scheme was carried out at 31 March 2018 and the next valuation is due as at 31 March 2021. In the year to 31 March 2019 the group made contributions based on pensionable pay and also paid lump sum deficit recovery contributions. Funding of the scheme is also subject to the inflation mechanism entered into by KGPP as part of a de-risking mandate agreed with the Trustee. This includes reducing equity and interest rate risks and is aimed at reducing the volatility in future funding and contributions. This mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 3.0% per annum. In set periods when actual inflation is higher than 3.0%, the group will make additional contributions for the increase in unhedged liabilities due to inflation in excess of 3%. Given the principal subsidiary of the group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have in place until the actuarial deficit is eliminated and will be reviewed thereafter. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

(vii) Defined contribution scheme

The group ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007. The total charged to the income statement for the defined contribution schemes for the year ended 31 March 2019 was £1.8m (2018: £1.1m).

20. Equity shares and other reserves

	Equity shares		Preference shares		Share premium	Total
	Number	1p shares £	Number	£1 shares £	£	£
Allotted, called up and fully paid						
As at 31 March 2017	190,000	1,900	530,893,837	530,893,837	70,602,342	601,498,079
Redeemed during the year	-	-	(4,450,000)	(4,450,000)	-	(4,450,000)
As at 31 March 2018	190,000	1,900	526,443,837	526,443,837	70,602,342	597,048,079
Redeemed during the year	-	-	(1,700,000)	(1,700,000)	-	(1,700,000)
As at 31 March 2019	190,000	1,900	524,743,837	524,743,837	70,602,342	595,348,079

Also included within equity are reserves, the nature of which are as follows:

Profit and loss account: Cumulative profits or losses, net of revaluation of retirement benefits and dividends paid.

Revaluation reserve: Infrastructure assets, residential properties, specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 2 and note 12.

Hedging reserve: the group holds interest rate swaps. Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI) in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss.

The hedging gain or loss recognised in OCI is reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends. For further details, see note 2 and note 21.

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments

The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Net debt and associated financial instruments comprise the following:

	2019 Less than one year £m	2019 More than one year £m	2019 Total £m	2018 Less than one year £m	2018 More than one year £m	2018 Total £m
Derivative financial assets:						
Fixed to floating interest rate swaps	-	55.4	55.4	-	45.3	45.3
Combined cross currency interest rate swaps	-	58.5	58.5	-	34.9	34.9
Derivative financial instruments on energy contracts	-	3.9	3.9	-	8.0	8.0
	-	117.8	117.8	-	88.2	88.2
Financial liabilities:						
Finance lease interest swaps	-	(23.2)	(23.2)	-	(21.3)	(21.3)
Inflation linked swaps	-	(2,067.5)	(2,067.5)	-	(1,754.1)	(1,754.1)
Combined cross currency interest rate swaps	-	(4.0)	(4.0)	-	(4.2)	(4.2)
Fixed to floating interest rate swaps	-	-	-	-	(10.7)	(10.7)
	-	(2,094.7)	(2,094.7)	-	(1,790.3)	(1,790.3)
Net debt:						
Cash and short term deposits	70.1	-	70.1	89.7	-	89.7
Borrowings	(2,296.7)	(4,572.0)	(6,868.7)	(284.4)	(6,306.1)	(6,590.5)
	(2,226.6)	(4,572.0)	(6,798.6)	(194.7)	(6,306.1)	(6,500.8)

Bank loans totalling £nil (2017/18: £48.4m (£3.9m due in less than one year, £44.5m due in more than one year) and cash of £nil (2017/18: £24.1m) have been transferred to Assets held for sale (note 15).

Cash and short term deposits were invested with a range of counterparties, either AAA rated sterling liquidity funds or banks with a rating of at least long term A, short term A1/P1, in accordance with approved investment guidelines.

The group has recognised a liability for the mark to market loss of £2,067.5m (2018: £1,926.2m) on inflation linked swaps. As at 31 March 2019, the total liability is included within the inflation linked swaps balance above in financial liabilities. As at 2018, £1,754.1m was shown as inflation linked swaps as in the table above; the remaining £172.1m, relating to the RPI accretion was shown within borrowings in note 14.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

21. Financial instruments (continued)

Derivative financial assets are all from continuing operations.

	2019 £m	2018 £m
Derivative financial liabilities from continuing operations	(2,094.7)	(1,779.6)
Derivative financial liabilities from discontinued operations (Note 15)	-	(10.7)
	(2,094.7)	(1,790.3)

	2019 £m	2018 £m
Cash from continuing operations	70.1	65.6
Cash from discontinued operations (Note 15)	-	24.1
	70.1	89.7

	2019 £m	2018 £m
Borrowings from continuing operations	(6,868.7)	(6,542.1)
Borrowings from discontinued operations (Note 15)	-	(48.4)
	(6,868.7)	(6,590.5)

The following table summarises the fair value movements on the derivative instruments:

	2019 £m	2018 £m
Included in finance income		
Movement of fair value of inflation linked swaps	-	39.0
Movement in fair value of cross currency debt	-	50.9
Movement of fair value of combined cross currency interest rate swaps	23.8	-
Movement of fair value of fixed to floating interest rate swaps	10.1	-
Movement in fair value of debt associated with fixed to floating swaps	7.9	21.5
Movement in fair value of finance lease interest rate swaps	-	4.0
	41.8	115.4
Included in finance costs		
Loss on modification of inflation linked swaps	-	(10.1)
Movement of fair value of inflation linked swaps	(263.1)	-
Movement of fair value of finance lease interest rate swaps	(1.9)	-
Movement in fair value of combined cross currency interest rate swaps	-	(47.7)
Movement of fair value of cross currency debt	(24.0)	-
Movement of fair value of debt associated with fixed to floating interest rate swaps	-	-
Movement in fair value of fixed to floating interest rate swaps	-	(16.2)
Movement in fair value of floating to fixed interest rate swaps	-	(0.4)
Movement in fair value of energy derivative	(4.1)	-
	(293.1)	(74.4)
Net fair value movement	(251.3)	41.0

In the year ended 31 March 2018, the equivalent movement in fair value of energy derivative of £14.3m income was included within operating costs.

As a result of a change in presentation this year, movement in fair value of inflation linked swaps of £263.1m includes £84.9m in relation to RPI uplift on inflation linked swaps.

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

21. Financial instruments *(continued)*

Movement in the fair value of cross currency swaps and associated debt

The group holds a number of combined cross currency interest rate swaps which have been designated in fair value hedge relationships and have been valued at the reporting date at fair value. In line with IFRS 9, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2019. The fair value movement of the combined cross currency interest rate swaps has resulted in £23.8m income (year ended 31 March 2018: £47.7m expense) to the profit and loss account. This is offset by the fair value movement in the associated debt of £24.0m expense (year ended 31 March 2018: £50.9m income). The net impact to the profit and loss account is £0.2m of cost (year ended 31 March 2018: £3.2m income).

Movement in the fair value of fixed to floating interest rate swaps

The group holds a number of fixed to floating interest rate swaps which are designated as fair value hedge relationships and have been valued at the reporting date at fair value. In line with IFRS 9, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 31 March 2019. The fair value movement of fixed to floating interest rate swaps has resulted in £10.1m income (year ended 31 March 2018: £16.2m expense) to the profit and loss account. The fair value movement of associated debt is £7.9m income (year ended 31 March 2018: £21.5m income). This is a total impact to the profit and loss account of £18.0m of income (year ended 31 March 2018: £5.3m income).

Movement in the fair value of finance lease swaps

The group has two floating to fixed interest rate swaps that have been taken out by the company to hedge against movements in the twelve month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on twelve month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2019 resulted in a £23.2m liability (31 March 2018: £21.3m). The increase of the liability in the year ended 31 March 2018 of £1.9m (year ended 31 March 2018: £4.0m income) has been recognised as fair value cost. This has been included in the profit and loss account as the specific circumstances which would allow it to be held in reserves were no longer met.

Movement in the fair value of inflation linked swaps

Inflation linked swaps have been valued at the reporting date at fair value, which at 31 March 2019 resulted in a £2,124.1m liability (31 March 2018: £1,926.2m liability). £2,124.1m (31 March 2018: £1,754.1m) is recognised within other financial liabilities (note 21) and £nil (31 March 2018: £172.1m) is recognised within long-term borrowings (note 14).

This year has seen the liability on the inflation linked swaps increase by £313.4m (year ended 31 March 2018: £306.8m decrease). £172.1m relates to change in presentation of the RPI uplift on inflation linked swaps, disclosed in borrowings in 2018. Of the remaining £141.3m movement, £263.1m fair value cost is disclosed in note 21 (year ended 31 March 2018: £28.9m net income). Of this amount, £293.7m relates to the increase in the fair value amount for the year, offset by £32.6m that relates to an inflation linked swap restructuring transaction that occurred during July 2018 and including £2.0m amortisation of the amounts relating to restructuring transactions.

Fair value movements have no effect on cash, but do have a deferred tax impact.

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

(a) Interest rate risk profile of financial assets and liabilities

The interest rate risk profile of the group's financial assets and liabilities at 31 March 2019 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that London inter-banking lending rate (LIBOR) and indexation remain constant at the year end position.

Year ended 31 March 2019

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	23.1	22.6	4.9	-	-	-	50.6
Guaranteed bonds	588.6	96.9	96.9	512.3	75.2	2,282.4	3,652.3
US Dollar bonds	10.4	10.4	153.4	4.4	116.2	-	294.8
Finance lease swaps	2.0	2.0	2.0	2.0	2.0	14.1	24.1
	<u>624.1</u>	<u>131.9</u>	<u>257.2</u>	<u>518.7</u>	<u>193.4</u>	<u>2,296.5</u>	<u>4,021.8</u>
Floating rate							
Inflation linked guaranteed bonds	27.6	27.7	27.7	27.8	27.9	2,059.8	2,198.5
US Dollar bonds	2.4	2.4	2.4	2.4	2.4	150.9	162.9
Guaranteed bonds	12.3	12.4	12.4	12.4	45.0	324.4	418.9
Bank loans	30.6	30.5	92.9	26.6	26.1	266.2	472.9
Combined cross currency interest rate swaps	7.8	7.8	7.8	7.8	7.0	-	38.2
Eurobonds issued by Kelda Eurobond Co Limited	1,531.8	-	-	-	-	-	1,531.8
Inflation linked swaps	50.5	97.0	53.2	148.0	112.4	1,619.3	2,080.4
Fair value interest rate swaps	11.2	11.2	11.2	11.2	11.2	67.8	123.8
Finance leases	16.5	5.4	5.5	5.6	5.7	77.9	116.6
	<u>1,690.7</u>	<u>194.4</u>	<u>213.1</u>	<u>241.8</u>	<u>237.7</u>	<u>4,566.3</u>	<u>7,144.0</u>
Non-interest bearing financial liabilities							
Trade payables	100.6	-	-	-	-	-	100.6
Other payables	180.6	3.7	-	-	-	-	184.3
	<u>281.2</u>	<u>3.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>284.9</u>

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

(a) Interest rate risk profile of financial assets and liabilities (continued)

Year ended 31 March 2018

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	23.7	23.1	22.6	4.9	-	-	74.3
Guaranteed bonds	120.4	584.0	92.4	92.4	507.8	2,153.4	3,550.4
US Dollar bonds	39.4	10.4	10.4	153.4	4.4	116.2	334.2
Interest rate swaps	1.5	1.3	1.1	0.9	0.7	1.3	6.8
Finance lease swaps	2.0	2.0	2.0	2.0	2.0	16.1	26.1
	<u>187.0</u>	<u>620.8</u>	<u>128.5</u>	<u>253.6</u>	<u>514.9</u>	<u>2,287.0</u>	<u>3,991.8</u>
Floating rate							
Inflation linked guaranteed bonds	26.6	26.6	26.6	26.6	26.6	1,811.7	1,944.7
US Dollar bonds	1.3	1.3	1.3	1.3	1.3	81.4	87.9
Guaranteed bonds	9.6	9.6	9.6	9.6	9.6	283.4	331.4
Bank loans	34.5	35.0	35.2	97.6	79.8	245.3	527.4
Combined cross currency interest rate swaps	8.0	8.3	8.3	8.3	12.0	29.4	74.3
Eurobonds issued by Kelda Eurobond Co Limited	101.4	1,530.5	-	-	-	-	1,631.9
Inflation linked swaps	50.6	98.5	56.2	151.0	115.4	1,526.2	1,997.9
Fair value interest rate swaps	10.5	11.6	11.6	11.6	11.6	137.5	194.4
Finance leases	14.9	16.8	5.7	5.6	5.6	81.7	130.3
	<u>257.4</u>	<u>1,738.2</u>	<u>154.5</u>	<u>311.6</u>	<u>261.9</u>	<u>4,196.6</u>	<u>6,920.2</u>
Non-interest bearing financial liabilities							
Trade payables	90.5	-	-	-	-	-	90.5
Other payables	170.9	3.9	-	-	-	-	174.8
	<u>261.4</u>	<u>3.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265.3</u>

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

21. Financial instruments (continued)

(a) Interest rate risk profile of financial assets and liabilities (continued)

The following table provides information about the maturity of the nominal amount and interest rates attached to the swaps held by group as of 31 March 2019 to hedge its interest rate risk:

	Period of maturity			Total
	First year £m	Second to fifth year £m	After five years	£m
	31 March 2019	31 March 2019	31 March 2019	31 March 2019
Notional amount (GBP)	-	291.5	430.0	721.5
Average interest rate – fixed to floating interest rate swaps	-	-	3.0%	-
Average interest rate – cross currency interest rate swaps (USD)	-	3.3%	-	-
Average interest rate – cross currency interest rate swaps (AUD)	-	3.1%	-	-

As of the 31 March 2019, the group held the following energy swap to hedge energy prices on its hedged items:

	Period of maturity			Total
	First year £m	Second to fifth year £m	After five years	£m
	31 March 2019	31 March 2019	31 March 2019	31 March 2019
Notional amount (GBP)	-	60.1	-	60.1
Average energy price – MWh per day	-	45.65	-	45.65

(b) Financial risks

Capital risk management

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

When monitoring capital risk, the group considers its gearing and the ratio of net debt to regulatory capital value (RCV).

Centrally managed funds are invested entirely with counterparties whose credit rating is 'A-' or better.

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

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

21. Financial instruments (continued)

(b) Financial risks (continued)

Credit risk

The group has some exposure to credit risk through the holding of receivables on the year-end balance sheet. These can be split into charges against the provision of water and waste water services and other trade receivables.

For trade receivables, the group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. The group considers that credit-impaired receivables includes receivables that are past two years overdue, because historical experience indicates that these receivables are generally not recoverable.

Risks associated with receivables include limits on the group's ability to restrict supply. However, this does not apply to all receivables. The credit risk is mitigated by introducing payment plans, providing advice and support to customers where this is viable and where it is considered necessary, using legal procedures to reclaim outstanding debts.

Risks associated with other trade receivables are mitigated by credit checks performed on customers before they are supplied, the cessation of supply to customers who are a high credit risk and payment in advance where this is deemed necessary.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The group's objective is to manage risk by minimising the amount of overdue debt at any time. The group manages the risk by timely review of the ageing profile and employing specific staff to monitor and collect these debts. The risk is measured by monitoring of overdue receivables.

At 31 March, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	2019	Group		Company
	2018		2019	2018
	£m	£m	£m	£m
Cash and short term deposits (see note 14 and 15)	70.1	89.7	-	-
Trade and other receivables (see note 13 and 15)	239.8	227.2	-	-
Financial assets (see note 15)	-	15.0	-	-
Investments	2.8	1.1	750.0	750.0

Liquidity risk

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

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

At 31 March 2019 the group had £609.2m of available liquidity (2018: £738.7m) which comprised £70.1m in available cash and short term deposits (2018: £89.7m) and £539.1m of undrawn committed borrowing facilities (2018: £649.0m).

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

The maturity profile on page 135 represents the forecast future contractual principal and interest cashflows in relation to the group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

Market risk

Market risk is the risk that movements in market conditions, including inflation and interest rates will impact materially on the group financial performance. The group's exposure to market risks primarily results from its financial arrangements and the economic return which it is allowed on the RCV.

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

The group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The group's floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The group uses interest rate swap contracts to hedge these exposures where appropriate.

The sensitivity of the group's interest and borrowings to the above risks can be summarised as follows:

	2019 £m	2018 £m
Impact on profit before tax		
1% increase in RPI leading to a decrease in profit	31.9	9.7
1% decrease in RPI leading to an increase in profit	(32.0)	(9.7)
1% increase in LIBOR leading to an increase in profit	13.4	14.5
1% decrease in LIBOR leading to a decrease in profit	(2.6)	(7.9)

Hedging of floating rate interest due on borrowings

The group has a number of borrowing facilities with a number of counterparties on which interest is linked to LIBOR. It is therefore exposed to changes in LIBOR which could have a material effect on interest costs from year to year and over time.

In order to manage its exposure to movements in LIBOR, the group has entered into a number of floating rate to inflation linked swaps and also a floating interest rate to fixed interest rate swap.

The nominal value of inflation linked swaps total £1,289.0m and have an average life of 25 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 15 years.

The hedging instruments are not a perfect cash flow hedge against changes in LIBOR as the dates and amounts of the swaps vary in some cases to the borrowings which they hedge.

(c) Fair values of financial assets and financial liabilities

The information set out below provides information about how the group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities or where the directors consider the carrying amounts of the financial instruments to approximate to their fair value;
- Level 2 fair value measurements are those derived from 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

(c) Fair values of financial assets and financial liabilities (continued)

Fair value of the group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
	2019	2018				
1. Interest rate swaps, combined cross-currency swaps, inflation linked swaps, fixed rate bonds and inflation linked bonds	Assets: £117.8m Liabilities: £1,532.6m	Assets: £88.2m Liabilities: £1,626.8m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counter-party credit risk.		
2) Interest rate swaps, inflation linked swaps	Assets: £nil Liabilities: £1,427.6m	Assets: £nil Liabilities: £916.3m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	<ul style="list-style-type: none"> Counter-party cost of funding assumption. Assumptions relating to long-term credit beyond observable curves Recovery rates 	Unobservable inputs contribute on average to 24% of the fair value of level 3 instruments, equalling a total of £508.6m of the fair value included in the financial statements. A ten basis point shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £167.1m higher or lower.

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

21. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

The following table provides the fair values of the group's financial assets and liabilities at 31 March 2019.

	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2018 Level 1 £m	2018 Level 2 £m	2018 Level 3 £m
Primary financial instruments financing the group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	70.1	-	-	89.7	-	-
Financial assets from concession arrangements	-	-	-	15.0	-	-
Loans to associates/joint ventures	2.0	-	-	1.0	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	-	55.4	-	-	45.3	-
Cross-currency interest rate swaps	-	58.5	-	-	34.9	-
Energy derivative	-	3.9	-	-	8.0	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	-	(23.2)	-	-	(21.3)	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	-	(4.0)	-	-	(4.2)	-
Fixed rate US Dollar bonds	-	(313.8)	-	-	(318.2)	-
Fixed rate AU Dollar bonds	-	(30.0)	-	-	(29.6)	-
Fixed rate Sterling bonds	-	(470.4)	-	(273.7)	(204.3)	-
Inflation linked swaps	-	(691.2)	(1,427.6)	-	(1,038.5)	(916.3)
Designated as Fair Value Through Other Comprehensive Income						
Other interest rate swaps	-	-	-	-	(10.7)	-
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	(2,232.1)	(416.5)	-	(2,330.0)	(267.2)	-
Inflation linked sterling bonds	(451.5)	(1,468.7)	-	(571.6)	(1,324.3)	-
Floating rate sterling bonds	-	(74.3)	-	-	(74.3)	-
Obligations under finance leases	(102.0)	-	-	(112.8)	-	-
Other bank loans and overdrafts	(1,069.1)	-	-	(564.8)	-	-
Bonds issued by Kelda Eurobond Co Limited	(1,434.6)	-	-	(1,329.2)	-	-

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

21. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities:

	RPI swaps £m	Total £m
Balance at 1 April 2018	916.3	916.3
Total unrealised gains or losses:		
- included within finance costs in the profit or loss	533.7	533.7
Transfers from Level 3	(22.4)	(22.4)
Balance at 31 March 2019	1,427.6	1,427.6

Valuations that are classed as level 3 for the inflation linked swaps are defined by the proportion of the funding and counter-party adjustment being greater than 10% of the total mark to market valuation of the instrument.

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2019:

	Reflected in profit or loss	
	Favourable change £m	Unfavourable change £m
Level 3 financial instrument assumptions:		
Ten basis point change in counter-party funding assumption	45.70	(45.70)
Ten basis point change to credit curve assumption	32.10	(32.10)
10% change in recovery rate assumption	89.30	(89.30)

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with these inflation linked swaps:

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

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate (see note 8 for further details).

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within financial liabilities. The RPI bullet accrued to 31 March 2019 was £184.5m (2017/18: £268.2m) which has been reduced by £57.2m (2017/18: £96.1m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short-term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £2,067.5m (2017/18: £1,926.2m liability) at the year end date. Included in this amount, £127.3m (2017/18: £172.1m) represents the discounted value of the RPI bullet accrued to 31 March 2019. As a result of a change in presentation this year, £2,067.5m (2017/18: £1,754.1m) has been recognised within other financial liabilities and £nil (2017/18: £172.1m) has been recognised within long-term borrowings.

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

21. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2019 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long-term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit valuation adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £543.2m (2017/18: £442.6m).

The fair value of net derivative financial liabilities of £1,976.9m would be £45.7m (2017/18: £29.7m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £32.1m (2017/18: £43.4m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £89.3m (2017/18: £69.7m) higher or lower were the recovery rate assumption to change by ten per cent.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable by £10.0m for two years, £5.0m received semi-annually from August 2018, and to reduce net interest by £21.1m for ten years, with £10.6m received on a net basis semi-annually from August 2020.

In March 2019, Yorkshire Water completed an inflation swap transaction with a notional value of £225.5m, which results in a bespoke RPI floor from Yorkshire Water to its bank counter-party for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counter-party, thereby allowing both parties to reduce their counter-party exposures.

Interest rate swaps

The group entered into several multi-currency interest rate swap transactions involving fifteen Fixed US Dollar bonds and one AUS Dollar bond, referred to as Cross Currency swaps between 2011 and 2013.

As detailed in this note above, the net impact of the fair value movement on the swaps resulted in a net expense of £0.2m (2017/18: £3.2m income) to the profit and loss account. This impact is split out as follows.

The fair value of combined cross currency interest rate swaps resulted in an income of £23.8m being recognised in the income statement (2018: £47.7m expense). This is offset by the change in fair value of the associated bonds resulting in an expense of £24.0m (2018: £50.9m income). Of the change in fair value of the associated bonds, £23.6m expense (2018: £47.3m income) relates to Fixed US Dollar bonds and £0.4m expense (2018: £3.6m income) relates to the AUS Dollar bonds.

The group holds three fixed to floating interest rate swaps, which mature in 2029 and 2033. The movement in the fair value of the swaps resulted in income of £10.1m recognised in the income statement (2018: £16.2m charge). There is a change in fair value of the associated bonds of £7.9m income (2018: £21.5m income). The income relating to the fair value of the individual associated bonds is as follows.

£11.7m of income (2018: £15.0m of income) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £276.8m (2018: £276.3m) at 31 March 2019. £2.0m (2018: £3.1m charge) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £106.8m (2018: £104.0m) at 31 March 2019. The remaining £1.8m change in fair value of associated

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

21. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £101.9m (2018: £101.1m) at 31 March 2019.

The group holds two floating to fixed interest rate swaps in relation to floating rate finance leases. These have a total nominal value of £45m. The movements in the fair value of floating to fixed rate swaps in respect of finance leases resulted in an expense of £1.9m recognised in the income statement as an exceptional item (2018: £3.9m charge).

The movement in the fair value of the floating interest rate to fixed interest rate swap instruments was a loss of £nil (2018: £0.4m loss). The fair value movement in the year has been charged directly to reserves as hedging criteria were met.

(d) Hedges

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

Interest rate swaps are used to manage interest rate exposure under a hedging strategy that requires that Yorkshire Water Services Limited and its subsidiaries to maintain at all times at least 85% of its total outstanding debt as index linked obligations or fixed rate obligations either directly or via hedges. At the financial year end the proportion was 100.5% (2018: 101%). At the Kelda finance group level the proportion was 95.8% (2018: 96%) at the financial year end.

Hedging of interest due under finance leases

The group has a number of finance leases with a number of counterparties lasting from inception to 21 February 2043.

Fair value hedges

Combined cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The group has recognised an asset of £58.5m (2018: £34.9m) for the mark to market gain in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £23.5m (2018: £44.9m loss) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

21. Financial instruments *(continued)*

(d) Hedges *(continued)*

The group has a £33.8m combined cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an Australian dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. The hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The group has made a provision of £4.0m (2018: £4.2m) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £0.3m (2018: £2.8m loss) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £26.7m (2018: £21.0m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £11.7m (2017: £9.0m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £16.8m (2018: £14.4m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £2.0m (2018: £3.6m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements.

The group has recognised an asset of £11.9m (2018: £9.9m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as finance income as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £1.8m (2018: £3.6m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

Cashflow hedges

The fair value of the floating interest rate to fixed interest rate swap instruments was recognised as a liability of £nil (2018: £10.7m liability). The fair value movement of £0.9m in the year has been charged directly to reserves as hedging criteria were met. The company (AES) in which the swap was held has been sold during the year and the hedging reserve relating to it has been recycled to the profit and loss account reserve.

Kelda Holdings Limited
Notes to the consolidated financial statements (continued)
for the year ended 31 March 2019

21. Financial instruments (continued)

(d) Hedges (continued)

Foreign currency risk management

The group has a number of long term interest bearing liabilities denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising combined cross currency interest rate swaps.

Impact of hedging instruments designated in hedging relationships

The impact of hedging instruments designated in hedging relationships as of 31 March 2019 on the group's consolidated balance sheet is as follows:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
	£m	Assets £m	Liabilities £m		£m
	31 March 2019	31 March 2019	31 March 2019	31 March 2019	31 March 2019
Fair value hedges					
Fixed to floating interest rate swaps	430.0	55.4	-	Derivative financial asset	10.1
Cross currency interest rate swaps (USD)	257.7	58.5	-	Derivative financial asset	23.5
Cross currency interest rate swaps (AUD)	33.8	-	(4.0)	Derivative financial liability	0.3

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
	£m	Assets £m	Liabilities £m		£m
	31 March 2018	31 March 2018	31 March 2018	31 March 2018	31 March 2018
Fair value hedges					
Fixed to floating interest rate swaps	430.0	45.3		Derivative financial asset	(16.2)
Cross currency interest rate swaps (USD)	285.9	34.9		Derivative financial asset	(44.9)
Cross currency interest rate swaps (AUD)	33.8		(4.2)	Derivative financial liability	(2.8)

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

(d) Hedges (continued)

Impact of hedged items designated in hedging relationships

The impact of hedged items designated in hedging relationships as of 31 March 2019, on the group's consolidated balance sheet is as follows:

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated balance sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve
	Assets £m 31 March 2019	Liabilities £m 31 March 2019	Assets £m 31 March 2019	Liabilities £m 31 March 2019	Assets £m 31 March 2019	Liabilities £m 31 March 2019	£m 31 March 2019	£m 31 March 2019	£m 31 March 2019
Fair value hedges									
Interest rate risk on fixed to floating swaps	-	(426.9)	-	(43.5)	-	-	Borrowings	7.9	-
Interest rate risk on cross currency interest rate swaps (USD)	-	(257.1)	-	(56.7)	-	-	Borrowings	(23.6)	-
Interest rate risk on cross currency interest rate swaps (AUD)		(33.8)	-	3.8	-	-	Borrowings	(0.4)	-

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

(d) Hedges (continued)

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated balance sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffectiv eness	Cash flow hedge reserve
	Assets £m 31 March 2018	Liabilities £m 31 March 2018	Assets £m 31 March 2018	Liabilities £m 31 March 2018	Assets £m 31 March 2018	Liabilities £m 31 March 2018	£m 31 March 2018	£m 31 March 2018	£m 31 March 2018
Fair value hedges									
Interest rate risk on fixed to floating swaps	-	(426.6)	-	(51.4)	-	-	Borrowings	21.5	-
Interest rate risk on cross currency interest rate swaps (USD)	-	(285.3)	-	(32.9)	-	-	Borrowings	47.3	-
Interest rate risk on cross currency interest rate swaps (AUD)		(33.8)	-	4.2	-	-	Borrowings	3.6	-

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

21. Financial instruments (continued)

e) Deferred 'day one' gains (losses)

Several transactions have been completed to restructure the inflation linked swaps. These have resulted in a 'day one' loss/gain adjustments, which are deferred and amortised over the remaining life of the swaps. The following table details the movements and amounts of deferred 'day one' gains (losses) included in the fair value of the swaps held at the balance sheet date:

	2019 £m	2018 £m
Balance at 1 April	(28.6)	(48.1)
Deferred 'day one' gains (losses) on new derivatives	(29.9)	18.4
Deferred 'day one' gains (losses) realised during the year	1.9	1.1
Balance at 31 March	(56.6)	(28.6)

22. Additional cash flow information

Analysis of movement in net debt from continuing operations

	At 31 March 2017 £m	Non cash movements £m	Cash movements £m	At 31 March 2018 £m	Non cash movements £m	Cash movements £m	At 31 March 2019 £m
Cash and cash equivalents	276.1	-	(210.5)	65.6	-	4.5	70.1
Debt due within one year	(160.6)	-	(107.3)	(267.9)	(1,908.8)	(105.8)	(2,282.5)
Finance leases due within one year	(11.0)	-	(1.6)	(12.6)	-	(1.6)	(14.2)
	(171.6)	-	(108.9)	(280.5)	(1,908.8)	(107.4)	(2,296.7)
Debt due after one year	(6,094.2)	(133.8)	66.6	(6,161.4)	1,888.5	(211.3)	(4,484.2)
Finance leases due after one year	(112.8)	-	12.6	(100.2)	-	12.4	(87.8)
	(6,207.0)	(133.8)	79.2	(6,261.6)	1,888.5	(198.9)	(4,572.0)
Net debt relating to continuing activities	(6,102.5)	(133.8)	(240.2)	(6,476.5)	(20.3)	(301.8)	(6,798.6)

Net debt does not include financial liabilities which are not considered to be part of the group's borrowings.

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

22. Additional cash flow information (continued)

Cash used as noted in the group (including discontinued operations) cash flow statement can be derived as follows:

	2019 £m	2018 £m
Total loss for the year	(644.5)	(68.0)
Tax (credit)/charge - continuing	(40.6)	9.5
Tax (credit)/charge from discontinued operations	(0.1)	0.6
Loss before taxation	(685.2)	(57.9)
Share of associates' and joint ventures' (profit)/loss after tax	(0.7)	0.1
Finance income before fair value movements	(67.1)	(46.1)
Finance costs before fair value movements	391.5	459.9
Net fair value movements (non cash) on finance income and costs	251.3	(41.0)
Movement of fair value of derivative financial instrument (energy contracts)	-	(14.4)
Depreciation	300.6	300.7
Amortisation of capitalised bid costs and software	12.8	11.8
Profit on disposal of operations	(5.7)	(28.2)
Profit on disposal of property, plant and equipment	(0.3)	-
Impairment of property, plant and equipment	0.3	1.0
Impairment of assets held for sale	-	4.9
Amortisation of capital grants	(10.3)	(10.0)
Decrease in inventories	-	(0.6)
Decrease in trade and other receivables	(21.4)	(5.5)
Increase in trade and other payables	(11.9)	19.8
Pension contributions in excess of operating costs	(6.4)	(8.5)
Movements in provisions	0.4	(0.6)
Other movements	(0.2)	(0.8)
Impairment of goodwill	350.0	-
Cash generated from operating activities	497.7	584.6

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

23. Commitments

	2019	2018
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	364.3	393.2

The long-term investment programme for the group, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014. £14.7m in 2019 (2017/18: £17.2m) of the above capital commitments relate to intangibles (software).

At 31 March, the group was committed to making the following payments under non-cancellable operating leases as set out below.

The group has entered into commercial leases on certain property, motor vehicles and items of machinery. These leases have an average duration of between three and ten years. There are no restrictions placed on the group by entering into the leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2019	2019	2018	2018
	Land and	Other	Land and	Other
	buildings	£m	buildings	£m
	£m		£m	
No later than 1 year	2.0	1.2	2.7	1.3
Later than 1 year and no later than 5 years	7.4	0.9	7.5	1.5
Later than 5 years	2.9	-	4.7	-
	12.3	2.1	14.9	2.8

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

24. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders.

	Loans to related parties	Loans (from)/to related parties
	2019	2018
	£m	£m
Joint ventures		
Whinmoor Limited	0.2	0.1
Templegate Developments Limited	0.9	(0.1)
Sir Robert Ogden Evans Property Partnership Limited	0.8	0.8
	1.9	0.8

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £nil (2018: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2019 the group made provisions totalling £0.6m for doubtful debts relating to amounts owed by related parties (2018: £0.6m). During the year dividends received from related parties totalled £nil (2018: £nil).

There were no other material transactions between the group and its associated undertakings and joint ventures during the year.

Compensation of key management personnel (including directors):

	2019	2018
	£m	£m
Short term benefits	3.5	2.7
	3.5	2.7

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

25. Subsidiary companies

The company, as an individual entity, has the following investments in subsidiaries, associated and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Water services				
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Projects) Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services (Old Whittington) Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Services Limited	England & Wales	UK	Ordinary	100%
Other activities				
Keyland Developments Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Services (Yorkshire) Limited	England & Wales	UK	Ordinary	100%
Kelda Transport Management Limited	England & Wales	UK	Ordinary	100%
Safe-Move Limited	England & Wales	UK	Ordinary	100%
Loop Customer Management Limited	England & Wales	UK	Ordinary	100%
Southern Pennines Rural Regeneration Company Limited ²	England & Wales	UK	Limited by guarantee	100%
Yorkshire Water Estates Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Limited	England & Wales	UK	Ordinary	100%
Kelda Limited	England & Wales	UK	Ordinary	100%
Kelda Group Pension Trustees Limited	England & Wales	UK	Ordinary	100%
Ridings Insurance Company Limited	Isle of Man	Isle of Man	Ordinary	100%
Yorkshire Water Projects Limited	England & Wales	UK	Ordinary	100%
Glandwr Cyfyngedig	England & Wales	UK	Ordinary	100%
Keyland (Midpoint) Limited	England & Wales	UK	Ordinary	100%
Keyland 2595 Limited	England & Wales	UK	Ordinary	100%
Templegate Developments Limited ^{JV}	England & Wales	UK	Ordinary	50%
Springswood Limited ^{3 JV}	England & Wales	UK	Ordinary	50%
Tingley Limited ^{3 JV}	England & Wales	UK	Ordinary	50%
The Courtyard (Midpoint) Management Company Limited ^{JV}	England & Wales	UK	Ordinary	33.3%
Whinmoor Limited ^{3 JV}	England & Wales	UK	Ordinary	50%
White Laith Developments Limited ^{3 A}	England & Wales	UK	Ordinary	37.5%
Rampart Developments Limited ^{3 A}	England & Wales	UK	Ordinary	25%
Kelda Organic Energy (Leeds) Limited	England & Wales	UK	Ordinary	100%
Kelda Organic Energy (Yorkshire) Limited	England & Wales	UK	Ordinary	100%

Kelda Holdings Limited
Notes to the consolidated financial statements *(continued)*
for the year ended 31 March 2019

25. Subsidiary companies *(continued)*

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Other activities <i>(continued)</i>				
The Sir Robert Ogden Partnership Limited ^{3 A}	England & Wales	UK	Ordinary	25%
The Sir Robert Ogden-Evans Property Partnership Limited ^{3 A}	England & Wales	UK	Ordinary	25%
Holding and finance companies				
Kelda Eurobond Co Limited	England & Wales	UK	Ordinary	100%
Kelda Group Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Holdings Limited ¹	Cayman Islands	UK	Ordinary	100%
Kelda Non-Reg Holdco Limited	England & Wales	UK	Ordinary	100%
Saltaire Water Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Limited ¹	Cayman Islands	UK	Ordinary	100%
Yorkshire Water Services Bradford Finance Limited ¹	Cayman Islands	UK	Ordinary	100%
Yorkshire Water Finance PLC	England & Wales	UK	Ordinary	100%
Kelda Finance (No.1) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) PLC	England & Wales	UK	Ordinary	100%

Registered office address:

¹ Maples & Calder Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands KY1 - 1104

² Canal & Visitors' Centre, Butler's Wharfe, New Road, Hebden Bridge HX7 8AF

³ Millshaw Ring Road, Beeston, Leeds, West Yorkshire LS11 8EG

^{JV} Joint Venture

^A Associate – All associates are property development and investment companies.

Yorkshire Water Finance Plc was incorporated on 2 July 2018. The company's investment in Yorkshire Water Finance Plc was £2.1m. The dissolution of the Cayman Islands registered companies has been discussed in the Strategic Report on page 37.

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

26. Ultimate controlling party

In the opinion of the directors there is no ultimate controlling party to Kelda Holdings Limited.

Kelda Holdings Limited's financial statements and copies of the group financial statements may be obtained from the Company Secretary, Western House, Halifax Road, Bradford BD6 2SZ.

27. Contingent liabilities

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical fees that they have paid to Yorkshire Water for water and drainages reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee.

At this stage it is not known if Yorkshire Water would be liable for these claims, the total value to which they could amount, or the timing of any cash outflow.

28. Post balance sheet event

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

Kelda Holdings Limited

Notes to the consolidated financial statements *(continued)*

for the year ended 31 March 2019

29. Adoption of new accounting standards

In the year ended 31 March 2019, the Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

The changes in accounting policies as a result are detailed out in note 2.

The transition to the new standards is complete; however, the group will monitor emerging developments and interpretations of the new standard. The cumulative effect method of transition has been adopted, with the effect of initially applying the standard recognised at the date of initial application (1 April 2018). Accordingly, the comparative information presented has not been restated.

- (a) Diversions income was previously accounted for in fixed assets, under IFRIC 18. Revenue from diversions is now recognised in revenue under IFRS 15, over the time it takes to complete the diversion. The adjustment reflects the diversions income in the year. The practical expedient has been applied with regard to accounting for completed contracts, whereby they will not be restated under IFRS 15, and therefore no cumulative catch up adjustment has been made.
- (b) On transition to IFRS 9, the group has recognised the loss on a non-substantial modification of debt through the profit and loss account, amortised over the life of the financial liability through the effective interest rate. The exchange accounting took place in 2009. The adjustment to retained earnings reflects the cumulative effect from modification to transition.

The cash flows of the group are not impacted by any of the adjustments above.

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

29. Adoption of new accounting standards (continued)

Profit and loss account

	Notes	As reported	Adjustments	Year to 31 March 2019 Amounts without adoption of IFRS 15 & IFRS 9 £m	Year to March 2018 Amounts without adoption of IFRS 15 & IFRS 9 £m
		£m	£m		
Revenue	(a)	1,063.9	(3.4)	1,060.5	1,013.3
Operating costs before exceptional items		(800.3)	-	(800.3)	(740.4)
Exceptional items		(378.7)	-	(378.7)	15.2
Share of associates and joint ventures' profit/(loss) after tax		0.7	-	0.7	(0.1)
Group operating (loss)/profit from continuing operations		(114.4)	(3.4)	(117.8)	288.0
Finance income before fair value income		67.1	-	67.1	46.1
Fair value income		41.8	-	41.8	115.4
Finance income		108.9	-	108.9	161.5
Finance costs before fair value cost		(386.8)	1.2	(385.6)	(440.3)
Fair value cost		(293.1)	-	(293.1)	(74.4)
Finance costs	(b)	(679.9)	1.2	(678.7)	(514.7)
Loss from continuing operations before taxation		(685.4)	(2.2)	(687.6)	(65.2)
Tax credit/(charge) on continuing operations	(a),(b)	40.6	0.4	41.0	(9.5)
Loss for the year from continuing operations		(644.8)	(1.8)	(646.6)	(74.7)
Profit from discontinued operations net of tax		0.3	-	0.3	6.7
Loss for the year		(644.5)	(1.8)	(646.3)	(68.0)

Kelda Holdings Limited

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2019

29. Adoption of new accounting standards (continued)

Balance sheet

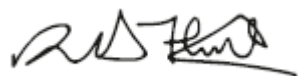
	Notes	As reported £m	Adjustments	As at 31 March 2019 Amounts without adoption of IFRS 15 & IFRS 9 £m	As at 31 March 2018 Amounts without adoption of IFRS 15 & IFRS 9 £m
Non-current assets					
Intangible assets		1,163.6	-	1,163.6	1,458.0
Property, plant and equipment		7,943.8	-	7,943.8	7,703.4
Investments in associated undertakings and joint ventures		0.8	-	0.8	0.1
Loans to associated undertakings and joint ventures		2.0	-	2.0	1.0
Derivative financial assets		117.8	-	117.8	88.2
Post-employment benefits surplus		73.6	-	73.6	84.8
		<u>9,301.6</u>	<u>-</u>	<u>9,301.6</u>	<u>9,335.5</u>
Current assets					
Inventories		3.1	-	3.1	3.0
Trade and other receivables		239.8	-	239.8	158.6
Tax assets		2.4	-	2.4	2.1
Cash and cash equivalents		70.1	-	70.1	65.6
Assets held for sale		-	-	-	160.4
		<u>315.4</u>	<u>-</u>	<u>315.4</u>	<u>389.7</u>
Total assets		<u>9,617.0</u>	<u>-</u>	<u>9,617.0</u>	<u>9,725.2</u>
Current liabilities					
Trade and other payables		(367.0)	-	(367.0)	(345.9)
Deferred grants and contributions on depreciated assets		(11.0)	-	(11.0)	(10.0)
Borrowings		(2,296.7)	-	(2,296.7)	(280.5)
Liabilities directly associated with assets held for sale		-	-	-	(103.1)
		<u>(2,674.7)</u>	<u>-</u>	<u>(2,674.7)</u>	<u>(739.5)</u>
Non-current liabilities					
Borrowings	(b)	(4,572.0)	25.9	(4,546.1)	(6,261.6)
Trade and other payables		(6.8)	-	(6.8)	(7.7)
Financial liabilities		(2,094.7)	-	(2,094.7)	(1,779.6)
Deferred grants and contributions on depreciated assets	(a)	(455.6)	(3.4)	(459.0)	(433.5)
Provisions for other liabilities and charges		(1.8)	-	(1.8)	(1.5)
Deferred income tax liabilities	(a),(b)	(433.7)	(3.8)	(437.5)	(474.5)
		<u>(7,564.6)</u>	<u>18.7</u>	<u>(7,545.9)</u>	<u>(8,958.4)</u>
Total liabilities		<u>(10,239.3)</u>	<u>18.7</u>	<u>(10,220.6)</u>	<u>(9,697.9)</u>
Net (liabilities)/assets		<u>(622.3)</u>	<u>18.7</u>	<u>(603.6)</u>	<u>27.3</u>
Equity attributable to owners of the parent					
Equity shares		524.7	-	524.7	526.4
Share premium		70.6	-	70.6	70.6
Hedging reserve		-	-	-	(10.9)
Revaluation reserve		639.8	-	639.8	605.8
Accumulated losses		(1,857.4)	18.7	(1,838.7)	(1,164.6)
Total equity	(a), (b)	<u>(622.3)</u>	<u>18.7</u>	<u>(603.6)</u>	<u>27.3</u>

Kelda Holdings Limited
Company Balance Sheet
as at 31 March 2019

	Notes	2019 £m	2018 £m
Fixed assets			
Investments	3	750.0	750.0
Creditors: amounts falling due within one year	4	(135.2)	(129.9)
Total assets less current liabilities		614.8	620.1
Net assets		614.8	620.1
Capital and reserves			
Called up share capital	6	595.3	597.0
Profit and loss account		19.5	23.1
Total shareholders' funds		614.8	620.1

The loss generated by the parent company for the year ended 31 March 2019 was £3.6m (2018: loss £3.0m). Advantage has been taken of the exemption available under Companies (Jersey) Law 1991 not to present a profit and loss account for the company alone.

The financial statements on pages 157 to 161 were approved by a duly authorised committee of the Board of directors on 15 July 2019 and signed on its behalf by:



Richard Flint

Chief Executive Officer

15 July 2019

Kelda Holdings Limited

Registered in Jersey no. 99329

Kelda Holdings Limited
Company statement of changes in equity
for the year ended 31 March 2019

	Ordinary shares £m	Preference shares £m	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2017	-	601.5	26.1	627.6
Shares redeemed in the year	-	(4.5)	-	(4.5)
Loss for the year	-	-	(3.0)	(3.0)
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2018	-	597.0	23.1	620.1
Shares redeemed in the year	-	(1.7)	-	(1.7)
Loss for the year	-	-	(3.6)	(3.6)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2019	-	595.3	19.5	614.8
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Kelda Holdings Limited

Notes to the company financial statements

for the year ended 31 March 2019

1. Company accounting policies

Basis of accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and, except where otherwise stated in the notes to the financial statements, with the Companies (Jersey) Law 1991. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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 Company (Jersey) Law 1991 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements of the group headed by the company have been 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:

- a Cash Flow Statement and related notes;
- comparative period reconciliation for share capital;
- 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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The accounting policies shown below have been applied consistently throughout the current and prior year.

Taxation

Current tax

Current tax for the current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior periods exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous period are held as an asset.

Deferred tax

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

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

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted.

Kelda Holdings Limited

Notes to the company financial statements *(continued)*

for the year ended 31 March 2019

1. Company accounting policies *(continued)*

Investments in subsidiaries

Investments in subsidiaries are state at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Financial instruments

Creditors

Creditors are not interest bearing and are stated at their nominal value.

Interest bearing loans and borrowings

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

Dividends receivable

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

Redemption of preference shares

Instances of redemption of preference shares are recognised on approval from shareholders.

Interest receivable

Interest receivable is recognised as the interest accrues using the effective interest method.

Share capital

Ordinary shares are classified as equity.

2. Loss attributable to the parent company

The result of the parent company was a loss of (£3.6m) (2018: £3.0m loss). Advantage has been taken of the exemption available under Companies (Jersey) Law 1991 not to present a profit and loss account for the company alone. The parent company profit and loss account was approved by a duly authorised committee of the board of directors on 15 July 2019.

3. Investments

As at 1 April 2018 and 31 March 2019

£m	£m
750.0	750.0

A list of the subsidiaries of the Company can be found on page 151. The directors believe that the carrying value of the investments is supported by their underlying net assets.

Kelda Holdings Limited

Notes to the company financial statements (continued)

for the year ended 31 March 2019

4. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	135.2	129.9

Amounts owed to subsidiary undertakings include loans repayable on demand of £134.6m (2018: £129.3m. Interest is charged at LIBOR + 2.0% (2017: LIBOR +2.0% margin).

5. Other information

The company had no employees at 31 March 2019 (2018: none).

Details of directors' emoluments are set out in the directors' remuneration report of the group. No elements related specifically to their work in the company.

Disclosure notes relating to share capital, financial instruments and auditors' remuneration are included within the financial statements of the group.

6. Called up share capital

	Equity shares		Preference shares		Share premium	Total
	Number	1p shares £	Number	£1 shares £	£	£
Allotted, called up and fully paid						
As at 31 March 2017	190,000	1,900	530,893,837	530,893,837	70,602,342	601,498,079
Redeemed during the year	-	-	(4,450,000)	(4,450,000)	-	(4,450,000)
As at 31 March 2018	190,000	1,900	526,443,837	526,443,837	70,602,342	597,048,079
Redeemed during the year	-	-	(1,700,000)	(1,700,000)	-	(1,700,000)
As at 31 March 2019	190,000	1,900	524,743,837	524,743,837	70,602,342	595,348,079

7. Ultimate controlling party

In the opinion of the directors there is no ultimate controlling party to Kelda Holdings Limited.

Kelda Holdings Limited's financial statements and copies of the group financial statements may be obtained from the Company Secretary, Western House, Halifax Road, Bradford BD6 2SZ.