

Yorkshire Water Finance Plc

Report and financial statements

Registered number 11444372

Nine month period ended 31 March 2019

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Directors and advisers

Directors

R Flint
E M Barber
K O H Smith

Company secretary

K O H Smith

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Bankers

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

Strategic report

The directors present their first strategic report on the company for the nine month period ended 31 March 2019.

Principal activities and business review

Yorkshire Water Finance Plc ("the company") was incorporated on 2 July 2018. The principal activity of the company is to raise finance for use in the business of Yorkshire Water Services Limited ("Yorkshire Water").

In 2018, Yorkshire Water took steps to remove its Cayman Islands incorporated, and wholly and exclusively UK tax resident, financing subsidiaries (Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited and Yorkshire Water Services Odsal Finance Limited). Following Ofwat consent, HM Revenue & Customs clearance, rating confirmations and secured creditor consent, on 16 August 2018 the company 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 Kelda Group Limited and have subsequently been placed into liquidation.

The company replaced the Cayman Islands subsidiaries within the Yorkshire Water Financing Group which was established in 2009 when the whole business securitisation ('WBS') of Yorkshire Water and its subsidiaries was completed and provides a permanent and stable platform for the long-term financing of Yorkshire Water. The WBS created the Yorkshire Water Financing Group ('YWFG') originally comprising Yorkshire Water, Yorkshire Water Services Holdings Limited, Yorkshire Water Services Finance Limited ('the company'), Yorkshire Water Services Odsal Finance Holdings Limited, Yorkshire Water Services Odsal Finance Limited ('YWSOF') and Yorkshire Water Services Bradford Finance Limited.

Performance and future outlook

During the nine month period to 31 March 2019 the company focused on delivering excellent internal services and performed in line with management expectations.

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

Principal risks and uncertainties

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

Key performance indicators

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

	2019 £'000
Profit for the nine month period ended 31 March 2019	54
Net assets	2,284

Strategic report (continued)

Financial risk management

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

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

Any surplus funds or amounts required to be held in reserve are entirely invested in liquid short term instruments with long-term ratings of at least A-/A-/A3 and/or short term ratings of at least A1/F1/P1 with Standard & Poor's, Fitch and Moody's respectively.

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

Approved by the board and signed on its behalf by:



E M Barber
Director

26 July 2019

Directors' report

The directors present their first report and audited statutory financial statements of the company for the nine month period ended 31 March 2019.

Results

The company's profit for the nine month period is £54,000.

Proposed dividend

The directors do not recommend the payment of a final dividend.

Future developments

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

Going concern

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

The directors believe that the company has adequate resources to continue in operational existence for at least twelve months after these financial statements are signed. Therefore, they continue in adopting the going concern basis of accounting in preparing the financial statements.

Financial instruments

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

Directors

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

R Flint (appointed 2 July 2018)
E M Barber (appointed 2 July 2018)
K O H Smith (appointed 8 October 2018)

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the nine month period and is currently in force. The company also purchased and maintained throughout the nine month period Directors' and Officers' liability insurance in respect of itself and its directors.

Disclosure of information to independent auditor

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

Independent auditor

Deloitte LLP has been appointed the auditor for the nine month period ended 31 March 2019, pursuant to Section 487 of the Companies Act 2006. The auditor, Deloitte LLP, has indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

Directors' report *(continued)*

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Approved by the board and signed on its behalf by:



E M Barber
Director

26 July 2019

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

Report on the audit of the financial statements

Opinion

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

- **give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the nine month period ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none">• transfer of financial instruments from fellow subsidiaries; and• recoverability of amounts owed by Group undertakings.
Materiality	The materiality that we used in the current year was £37.5m which represents approximately 1% of total assets.
Scoping	Our audit scoping has resulted in 100% of the company's net assets, profit before tax and EBITDA being subject to audit testing.

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

We have nothing to report in respect of these matters.

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

- in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Transfer of financial instruments from fellow subsidiaries

Key audit matter description



Yorkshire Water Finance plc was established within the year to replace fellow subsidiaries as the issuer of listed bonds and private notes with a fair value on incorporation of £3,648 million.

The determination of the fair value of the financial instruments transferred on incorporation involved a number of complex accounting steps to transfer the listed bonds and private notes from the fellow subsidiary companies into Yorkshire Water Finance plc and calculate the fair value of the debt transferred. Management engaged a third party to assist with determining the accounting entries to be recorded as a result of this financial instrument restructure.

A key audit matter therefore related to the appropriateness of the accounting treatment for the financial instruments transferred and of the fair value recognised on the date of transfer.

The accounting policy for the valuation of financial instruments is included in Note 1 and the value of bonds and private notes held at year end is disclosed in note 12 of the financial statements.





How the scope of our audit responded to the key audit matter



The procedures performed were as follows:

- we considered the competence and independence of the third party in providing the accounting advice;
- we used internal financial instruments specialists to evaluate the fair values of the listed bonds and private notes novated through independent valuations;
- we reviewed the reports and accounting advice received from a third party;
- we compared the third party suggested accounting journals against the journals posted by management to consider the completeness and accuracy of the postings; and
- we audited the accuracy of any journals not included in the third

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

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

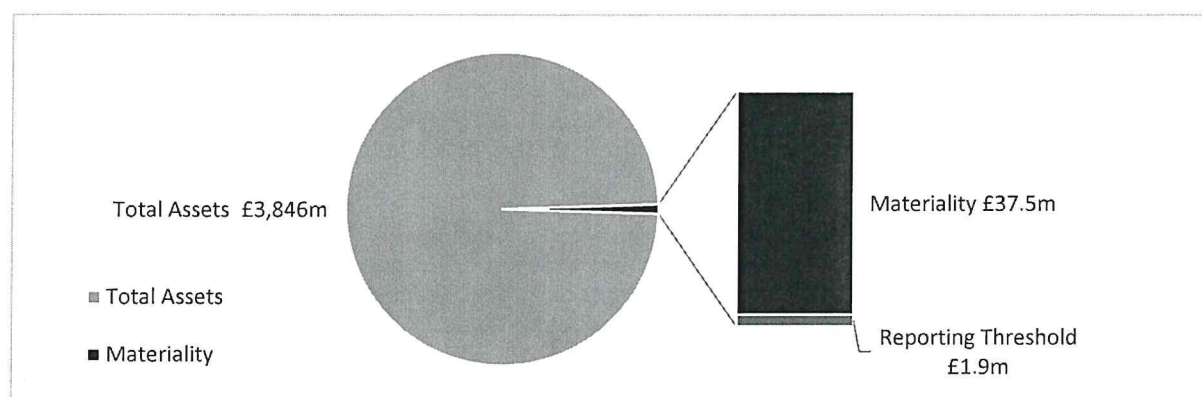
Our application of materiality

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

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

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

Materiality	£37.5m
Basis for determining materiality	Materiality represents approximately 1% of total assets.
Rationale for the benchmark applied	The primary purpose of the Company is to provide financing to Yorkshire Water Services Limited. Accordingly the company's balance sheet strength is considered to be the key financial metric of relevance to the users of the financial statements. We have therefore used total assets as the benchmark.



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

An overview of the scope of our audit

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

Other information

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

We have nothing to report in respect of these matters.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so,

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

consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

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

Identifying and assessing potential risks related to irregularities

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

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

- enquiring of management, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance.
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and internal specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context for the company and the sector it operates in such as UK Companies Act and tax legislation.

Audit response to risks identified

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

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, those charged with governance and the group external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

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

Our total uninterrupted period of engagement is 1 year, covering the period from our appointment through to the period ending 31 March 2019.

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Jane Boardman, BSc FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

26 July 2019

Profit and loss account
for the nine month period ended 31 March 2019

	Note	Nine month period ended 31 March 2019 £'000
Interest receivable and similar income	6	137,331
Interest payable and similar charges	7	(137,259)
Profit on ordinary activities before taxation		72
Taxation	8	(18)
Profit for the nine month period		54

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

Balance sheet
as at 31 March 2019

	Note	2019 £'000
Current assets		
Debtors (including £3,514,432,000 due after more than one year)	9	3,846,029
Cash at bank and in hand		7
		<hr/>
		3,846,036
Creditors: amounts falling due within one year	10	(333,419)
		<hr/>
Net current assets		3,512,617
		<hr/>
Total assets less current liabilities		3,512,617
		<hr/>
Creditors: amounts falling due after more than one year	11	(3,510,333)
		<hr/>
Net assets		2,284
		<hr/>
Capital and reserves		
Called up share capital	13	50
Share premium account	13	2,180
Profit and loss account	13	54
		<hr/>
Shareholders' funds		2,284
		<hr/>

These financial statements on pages 13 to 28 were approved by the board of directors and authorised for issue on 26 July 2019 and were signed on its behalf by:



E M Barber
Director

Company registered number: 11444372

Statement of changes in equity
for the nine month period ended 31 March 2019

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

Notes to the financial statements

1 Accounting policies

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

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

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

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

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

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

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

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

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

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

Measurement convention

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

Going concern

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

The directors believe that the company has adequate resources to continue in operational existence for at least twelve months after these financial statements are signed. Therefore, they continue in adopting the going concern basis of accounting in preparing the financial statements.

Classification of financial instruments issued by the company

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

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Non-derivative financial instruments

IFRS 9 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.

There are no impacts on adoption of IFRS 9 with respect to classification and measurement, and hedge accounting.

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 company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

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

Other debtors

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Other creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

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

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

Fair value estimation

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

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

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

Impairment

Financial assets (including other debtors)

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

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model 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.

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

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

Interest receivable and interest payable

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

Taxation

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

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

2 Accounting estimates and judgements

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

Notes to the financial statements (continued)

3 Expenses and auditor's remuneration

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

4 Staff numbers and costs

The company did not have any employees during the nine month period ended 31 March 2019.

5 Directors' remuneration

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

6 Interest receivable and similar income

	Nine month period ended 2019 £'000
Interest income from group undertakings	89,842
Amortisation of fair value on transfer of debt	1,903
Movement in fair value of fixed rate sterling bonds	5,051
Movement in fair value of fixed rate Australian bonds	8,431
Movement in fair value of fixed rate inter-company loans	32,104
	<hr/>
Total interest receivable and similar income	137,331 <hr/>

Interest receivable and similar income includes income from group undertakings of £123,849,000.

7 Interest payable and similar charges

	Nine month period ended 2019 £'000
RPI uplift on inflation linked bonds	6,625
Amortisation of issue costs	797
Interest payable of fixed rate US dollar bonds	6,620
Interest payable of fixed rate sterling bonds	65,475
Interest payable on inflation linked sterling bonds	10,883
Interest payable on fixed rate Australian dollar bonds	1,238
Movement in fair value of fixed rate US dollar bonds	45,587
Other charges	34
	<hr/>
Total interest payable and similar charges	137,259 <hr/>

Total interest payable and similar charges includes £34,000 payable to group undertakings.

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

Notes to the financial statements (continued)

8 Taxation

Total tax expense recognised in the profit and loss account

	Nine month period ended 31 March 2019 £'000
<i>Current tax</i>	
Current tax expense on income for the nine month period	18
Tax on profit on ordinary activities	18

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements.

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.

Reconciliation of effective tax rate

	Nine month period ended 31 March 2019 £'000
Profit for the nine month period	54
Total tax expense	18
Profit for the nine month period excluding taxation	72
Tax using the UK corporation tax rate of 19%	14
Non-deductible expenses	4
Total tax expense	18

9 Debtors

	2019 £'000
Amounts owed by group undertakings	3,846,029
	3,846,029
Analysed as:	
Due within one year	331,597
Due after more than one year	3,514,432
	3,846,029

Amounts owed by group undertakings represent loans to Yorkshire Water Services Limited which are unsecured, bear interest at varying nominal rates and have contractual repayment dates. The interest rates and repayment dates of these loans are the same as the guaranteed bonds disclosed in note 12.

Notes to the financial statements (continued)

10 Creditors: amounts falling due within one year

	2019 £'000
Interest-bearing loans and borrowings (note 12)	279,458
Other creditors	53,943
Corporation tax	18
	<hr/> 333,419 <hr/>

Amounts owed to group undertakings are unsecured, bear interest at nominal rates and are repayable on demand.

The company maintains a debt service reserve liquidity facility ("DSR") that has been made available to members of the Yorkshire Water Financing Group under a liquidity facility agreement. The DSR is a twelve month standby facility for funding Yorkshire Water Services Limited's interest expense. During March 2019, Yorkshire Water renewed its debt service reserve bank liquidity facility ("DSR") at £189.0m (2018: £189.0m). As at 31 March 2019, zero amounts were drawn on this facility (2018: zero).

11 Creditors: amounts falling due after more than one year

	2019 £'000
Interest-bearing loans and borrowings (note 12)	<hr/> 3,510,333 <hr/>

12 Interest-bearing loans and borrowings

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

	2019 £'000
Creditors: amounts falling due after more than one year	
Interest-bearing loans and borrowings	3,510,333
Creditors: amounts falling due within one year	
Interest-bearing loans and borrowings	<hr/> 279,458 <hr/>
	<hr/> 3,789,791 <hr/>

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

Notes to the financial statements (continued)

12 Interest-bearing loans and borrowings (continued)

Interest-bearing loans and borrowings:

<i>Terms and debt repayment schedule</i>	Currency	Nominal interest rate	Year of maturity	Face value 2019	Carrying amount 2019 £'000
Guaranteed bonds ^c	GBP	6.000%	2019	£275m	279,458
Guaranteed bonds	USD	3.770%	2021	\$115m	87,765
Guaranteed bonds	USD	3.770%	2022	\$40m	30,531
Guaranteed bonds	USD	5.070%	2022	\$75m	57,166
Guaranteed bonds	USD	3.870%	2023	\$150m	115,245
Guaranteed bonds ^a	AUD	5.875%	2023	\$50m	30,014
Guaranteed bonds (Exchange bonds) ^a	GBP	6.588%	2023	£30m	34,042
Guaranteed bonds (Exchange bonds) ^a	GBP	6.588%	2023	£181m	233,735
Guaranteed bonds	USD	3.870%	2024	\$30m	23,047
Guaranteed bonds (Exchange bonds) ^a	GBP	6.454%	2027	£135m	175,166
Guaranteed bonds ^b	GBP	2.030%	2028	£60m	56,190
Guaranteed bonds ^a	GBP	3.625%	2029	£250m	262,244
Guaranteed bonds ^b	GBP	3.540%	2029	£90m	102,711
Guaranteed bonds ^b	GBP	2.140%	2031	£50m	45,650
Guaranteed bonds (Exchange bonds) ^a	GBP	6.601%	2031	£255m	355,645
Guaranteed bonds ^a	GBP	4.968%	2033	£90m	105,436
Guaranteed bonds ^b	GBP	2.210%	2033	£50m	45,052
Inflation linked guaranteed bonds (Exchange bonds) ^a	GBP	3.307%	2033	£128m	257,536
Guaranteed bonds ^b	GBP	2.300%	2036	£40m	35,502
Guaranteed bonds ^b	GBP	2.300%	2036	£50m	44,377
Guaranteed bonds ^c	GBP	6.375%	2039	£300m	445,663
Inflation linked guaranteed bonds ^a	GBP	2.718%	2039	£260m	578,523
Inflation linked guaranteed bonds	GBP	2.160%	2041	£50m	94,565
Inflation linked guaranteed bonds ^{a 1}	GBP	1.803%	2042	£50m	82,770
Guaranteed bonds ^{a 2}	GBP	3.750%	2046	£200m	211,758
					3,789,791

¹ Amortising - repayments commencing 2032

² Associated step-up and call date on 22 March 2023

^a Quoted on the London stock exchange

^b Quoted on the Channel Islands stock exchange

^c Quoted on the London and Frankfurt stock exchanges

13 Capital and reserves

Called up share capital	2019 £'000
<i>Allotted, called up and fully paid</i>	
50,001 ordinary shares at £1 each	50

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

During the nine month period the company issued 50,000 ordinary shares for a consideration of £1 each, and 1 ordinary share for a consideration of £2,179,625, all settled in cash.

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

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

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

Notes to the financial statements (continued)

14 Financial instruments

14 (a) Fair values of financial instruments

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

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

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

	Carrying value	Fair value	Level 1	Level 2
	2019	2019	2019	2019
	£'000	£'000	£'000	£'000
Financial liabilities designated as fair value through profit or loss				
3.770% \$115m bond 2021	87,765	87,765	-	87,765
3.770% \$40m bond 2022	30,531	30,531	-	30,531
5.070% \$75m bond 2022	57,166	57,166	-	57,166
3.870% \$150m bond 2023	115,245	115,245	-	115,245
3.870% \$30m bond 2024	23,047	23,047	-	23,047
5.875% AUD\$50m bond 2023	30,014	30,014	-	30,014
3.625% £250m bond 2029	262,244	262,244	-	262,244
4.968% £90m bond 2033	105,436	105,436	-	105,436
3.540% £90m bond 2029	102,711	102,711	-	102,711
Total financial liabilities at fair value through profit or loss	814,159	814,159	-	814,159
Financial liabilities measured at amortised cost				
6.000% £275m bond 2019	279,458	279,859	279,859	-
6.375% £300m bond 2039	445,663	469,197	469,197	-
3.750% £200m bond 2046	211,758	206,486	206,486	-
2.160% £50m inflation linked bond 2041	94,565	59,479	-	59,479
2.718% £260m inflation linked bond 2039	578,523	451,485	451,485	-
1.803% £50m inflation linked bond 2042	82,770	59,374	-	59,374
2.030% £60m bond 2028	56,190	59,803	-	59,803
2.140% £50m bond 2031	45,650	49,825	-	49,825
2.210% £50m bond 2033	45,052	49,819	-	49,819
2.300% £40m bond 2036	35,502	39,851	-	39,851
2.300% £50m bond 2036	44,377	49,814	-	49,814
6.588% £29.9m bond 2023	34,042	35,504	35,504	-
6.588% £180.8m bond 2023	233,735	214,691	214,691	-
6.454% £135.5m bond 2027	175,166	178,132	178,132	-
6.601% £255.0m bond 2031	355,645	365,373	365,373	-
3.307% £127.8m inflation linked bond 2033	257,536	211,048	-	211,048
Total financial liabilities measured at amortised cost	2,975,632	2,779,740	2,200,727	579,013
Total financial instruments	3,789,791	3,593,899	2,200,727	1,393,172

Notes to the financial statements (continued)

14 Financial instruments (continued)

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

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

Class of financial instruments measured at fair value	Valuation technique
Bonds	<p>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.</p> <p>Quoted market prices or dealer quotes for similar instruments are used for long-term debt. The fair value calculations have been adjusted to incorporate own and counter-party credit risk.</p> <p>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.</p>
Financial instruments not measured at fair value	
Bonds	<p>The fair values of the bonds have been determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. The fair values of the bonds have been determined by reference to market values for similar instruments.</p>

14 (b) Credit risk

Financial risk management

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

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

14 (c) Liquidity risk

Financial risk management

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

Liquidity is managed at Kelda Holdings Limited group level by ensuring debt is held with a range of durations and the maturity profile is actively managed by the group's treasury function. Existing bank covenants require the group to keep a combination of available cash and banking facilities sufficient to cover anticipated capital expenditure, operating costs and interest costs for the succeeding 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.

Notes to the financial statements (continued)

14 Financial instruments (continued)

14 (c) Liquidity risk (continued)

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

	2019					
	Carrying amount £'000	Contract- ual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5 years and over £'000
Non-derivative financial liabilities						
Fixed rate sterling bonds	1,407,271	1,719,414	324,811	43,347	321,985	1,029,271
Fixed rate sterling bond held at amortised cost	1,025,358	1,256,238	44,901	44,901	330,071	836,365
Fixed rate US dollar bonds	313,755	294,807	10,440	10,440	273,927	-
Fixed rate AU dollar bonds	30,014	42,488	1,986	1,986	38,516	-
Inflation linked sterling bonds held at fair value	578,523	467,012	8,116	8,116	24,347	426,433
Inflation linked sterling bonds held at amortised cost	434,870	462,651	8,004	8,004	24,011	422,632
	3,789,791	4,242,610	398,258	116,794	1,012,857	2,714,701

Notes to the financial statements (continued)

14 Financial instruments (continued)

14 (d) Market risk

Financial risk management

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

The company is exposed to foreign exchange risk arising from the raising of US and Australian dollar bonds. However, the proceeds of the USD bond issuance in December 2011 and January 2012 and those of the Australian Dollar bond issuance in April 2013 were immediately lent on to Yorkshire Water Services Limited with the same coupon and maturity dates. Any foreign exchange exposure is therefore eliminated against an equal and opposite exposure on trade and other receivables.

Market risk - Interest rate risk

Profile

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

	2019 £'000
Fixed rate instruments	
Financial liabilities	2,776,398
Variable rate instruments	
Financial liabilities	1,013,393

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

Sensitivity analysis

The principal activity of the company during the year was that of raising finance for use in the business of Yorkshire Water Services Limited ('Yorkshire Water'). This is expected to continue for the foreseeable future. On 24 July 2009 the whole business securitisation (WBS) of Yorkshire Water and its subsidiaries was completed, providing a permanent and stable platform for the long-term financing of Yorkshire Water Services Limited. The WBS created the Yorkshire Water Financing Group, which includes Yorkshire Water Finance Plc. The proceeds of bond issuances have been lent on to Yorkshire Water. Any interest rate risk exposure is therefore eliminated against an equal and opposite exposure on trade and other receivables.

14 (e) Capital management

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

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

Any surplus funds or amounts required to be held in reserve are entirely invested in liquid short term instruments with long-term ratings of at least A-/A-/A3 and/or short term ratings of at least A1/F1/P1 with Standard & Poor's, Fitch and Moody's respectively.

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

Notes to the financial statements *(continued)*

15 Contingencies

The banking arrangements of Yorkshire Water operate on a pooled basis, with the main accounts of each subsidiary offsetting with other subsidiary accounts of Yorkshire Water in the pooling arrangement. No losses are expected to arise as a result of this arrangement.

16 Ultimate parent company and ultimate controlling party

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

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