Yorkshire Water Services Finance Limited

Annual report and financial statements

Registered number 04636719

Year ended 31 March 2019

Contents

Directors and advisers

Directors
R Flint
E M Barber
K O H Smith

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Bankers

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

Strategic report

The directors present their strategic report on the company for the year ended 31 March 2019.

Principal activities and review of the business and future expectations

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

On 24 July 2009 the whole business securitisation ('WBS') of Yorkshire Water and its subsidiaries was completed, providing a permanent and stable platform for the long-term financing of Yorkshire Water. The WBS created the Yorkshire Water Financing Group ('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, the latter three companies being incorporated in the Cayman Islands and wholly and exclusively UK tax resident.

In 2018, Yorkshire Water took steps to remove its Cayman Islands subsidiaries. Following Ofwat consent, HM Revenue & Customs 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 Kelda Group Limited and have subsequently been placed into liquidation. Amounts owed by and to group undertakings to value of £0.7m have been repaid following the exercise undertaken to remove the Cayman Island subsidiaries.

Certain bonds held by the company at 31 March 2009 were exchanged for bonds held by YWSOF in July 2009 with substantially similar terms and conditions. YWF was substituted as the issuer of these bonds in August 2018 as part of the exercise to remove the Cayman Islands registered companies from the group, as mentioned above.

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

Performance and future outlook

During the year to 31 March 2019 the company continued to focus 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	2018 £'000
(Loss) / result for the financial year	(8)	-
Net assets	40	48

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 annual report and audited financial statements of the company for the year ended 31 March 2019.

Results

The company's result for the financial year is a loss of £8,000 (2018: £nil).

Proposed dividend

The directors do not recommend the payment of any dividends (2018: £nil).

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 on page 2.

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 year and up to the date of approval of the financial statements, unless otherwise stated:

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

Disclosure of information to independent auditor

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

Independent auditor

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

Directors' 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 Services Finance Limited

Report on the audit of the financial statements

Opinion

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

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

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 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 matter that we identified in the current year was recoverability of amounts owed by Group undertakings.
Materiality	The materiality that we used in the current year was £18.3m. Materiality represents approximately 2% of total assets (2018: approximately 1.1% 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.
Significant	In the prior year, we reported on management override of controls as a

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

changes in our approach	key audit matter. This was not identified as a key audit matter in the current year, however we discuss how the audit was capable of detecting irregularities, including fraud, later in this report.

Conclusions relating to going concern

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

Key audit matters

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

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

Recoverability of receivables from Group undertakings	
Key audit matter description	Yorkshire Water Services Finance Limited is part of the Kelda Holdings Limited Group (the "Group"). Receivables from Group undertakings are stated in the balance sheet at £913m (2018: £1,645m). 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 Services Finance Limited has loaned amounts to. This takes into consideration a range of factors such as the trading performance of the Group, the ability of the Group to secure financing and the Group's ability to respond to changing demands of the regulated market. For further details of the amounts receivable from group companies please see note 9 of the financial statements and note 1 for the accounting policies in relation to intercompany loans.
How the scope of our audit responded to the	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

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

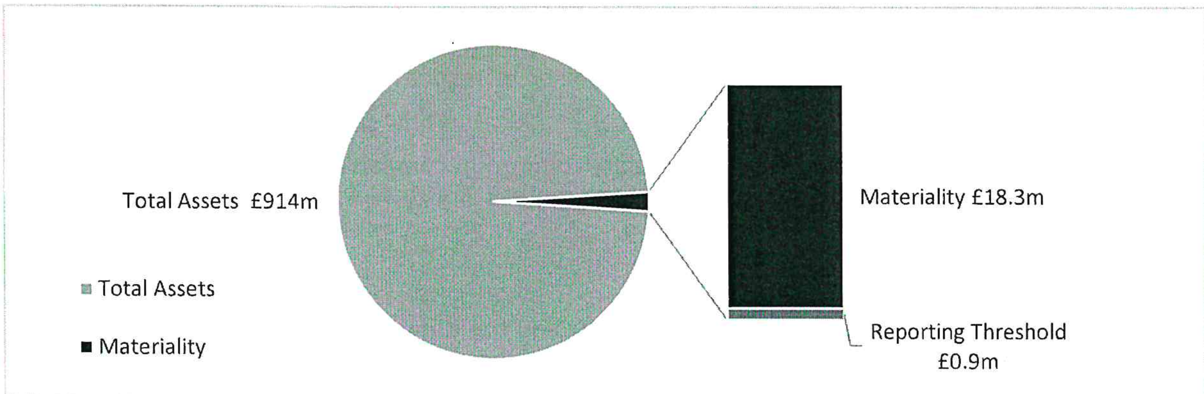
key audit matter	undertakings to repay the receivable amounts. This included an assessment of the valuation of the infrastructure assets held by Yorkshire Water Services which ultimately support the future trading performance and cash flows of the Group. We have reviewed management's IFRS 9 workings to consider credit risk within intercompany balances by assessing the underlying net asset position of the counterparty and the availability and liquidity of those assets. We have then re-performed the analysis to consider any debtors that may prima facie appear to be impaired. We also reviewed the historical accuracy of the Group's forecasts by comparing the actual results of previous periods to original forecasts.
Key observations	Based on the work performed we concluded that receivables from Group undertakings are 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:

Materiality	£18.3m (2018: £10m)
Basis for determining materiality	Materiality represents approximately 2% of total assets (2018: approximately 1.1% 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.



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

We agreed with the board of directors that we would report to them all audit differences in excess of £0.9m, 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.

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

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

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

We have nothing to report in respect of these matters.

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.

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

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:

- 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

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

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.

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.

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

Other matters

Auditor tenure

We were appointed by the board of directors on 10 October 2017 to audit the financial statements of the Company for the period ending 31 March 2018 and subsequent financial periods.

Our total uninterrupted period of engagement is 2 years, covering periods 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.

J Boardman.

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 year ended 31 March 2019

	Note	**2019 £'000**	2018 £'000
Interest receivable and similar income	*6*	**57,747**	93,407
Interest payable and similar expenses	*7*	**(57,757)**	(93,407)
(Loss)/result before taxation		**(10)**	-
Taxation	*8*	**2**	-
(Loss)/result for the financial year		**(8)**	-

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

Balance sheet
as at 31 March 2019

	Note	2019 £'000	2018 £'000
Current assets			
Debtors (including £906,507,000 (2018: £1,619,396,000) due after more than one year)	*9*	**912,642**	1,645,299
Cash at bank and in hand		**1,409**	1,417
		914,051	1,646,716
Creditors: amounts falling due within one year	*10*	**(7,541)**	(27,308)
Net current assets		**906,510**	1,619,408
Total assets less current liabilities		**906,510**	1,619,408
Creditors: amounts falling due after more than one year	*11*	**(906,470)**	(1,619,360)
Net assets		**40**	48
Capital and reserves			
Called up share capital	*13*	**50**	50
Profit and loss account	*13*	**(10)**	(2)
Total shareholders' funds		**40**	48

These financial statements on pages 13 to 27 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: 04636719

Statement of changes in equity
for the year ended 31 March 2019

	Called up share capital £'000	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2018	50	(2)	48
Total comprehensive loss for the year			
Loss for the financial year	-	(8)	(8)
Total comprehensive loss for the financial year	-	(8)	(8)
Balance at 31 March 2019	**50**	**(10)**	**40**

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

Notes to the financial statements

1 Accounting policies

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

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

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

Kelda Eurobond Co Limited, 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, West Yorkshire, BD6 2SZ.

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

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

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. No new accounting standards, that are effective for the year ended 31 March 2019, have had a material impact on the company.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared under the historical cost convention.

Going concern

The company's business activities, together with the likely factors to affect its future development, performance and position are set out in the Strategic Report on page 2.

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

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

Other debtors

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

Other creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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.

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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

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.

Taxation

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

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

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

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

New standards and interpretations

In the current year, the company 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.

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.

As at 1 April 2018, the directors of the company reviewed and assessed the company's existing amounts intercompany 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.

There is no impact resulting from the transition to this standard.

2 Accounting estimates and judgements

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

3 Expenses and auditor's remuneration

Auditor's remuneration of £2,000 (2018: £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 year ended 31 March 2019 (2018: nil).

5 Directors' remuneration

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2018: £nil).

6 Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest income on financial assets measured at amortised cost	**57,746**	93,405
Other	**1**	2
Total interest receivable and similar income	**57,747**	93,407

Notes to the financial statements *(continued)*

7 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest expense on financial liabilities measured at amortised cost	**57,757**	93,407
Total interest payable and similar charges	**57,757**	93,407

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £nil (2018: £nil) and on all other loans of £40,380,000 (2018: £48,694,000). Of the above amount £16,771,000 (2018: £44,158,000) was payable to group undertakings.

8 Taxation

	2019 £'000	2018 £'000
Current tax		
Total current tax credit	**(2)**	-
Tax credit on loss	**(2)**	-

The tax on loss is lower than (2018: equal to) the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

Reconciliation of tax

	2019 £'000	2018 £'000
(Loss) / result for the financial year	**(8)**	-
Total tax credit included in profit and loss	**(2)**	-
(Loss) / result before taxation	**(10)**	-
Tax using the UK corporation tax rate of 19% (2018: 19%)	**(2)**	-
Total tax credit included in profit and loss	**(2)**	-

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.

Notes to the financial statements *(continued)*

9 Debtors

	2019 £'000	2018 £'000
Amounts owed by group undertakings	**912,642**	1,645,299
	912,642	1,645,299
Analysed as:		
Due within one year	**6,135**	25,903
Due after more than one year	**906,507**	1,619,396
	912,642	1,645,299

The 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. The prior year amount includes additional unsecured loans with contractual repayment dates and bearing interest at varying nominal rates between 1.524% and 6.625% per annum. These loans were settled during the year due to the removal of the Cayman Islands registered companies from the YWFG as disclosed in the Strategic Report on page 2.

10 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Amounts owed to group undertakings	**1,408**	21,226
Other creditors	**6,133**	6,082
	7,541	27,308

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand. Amounts owed to group undertakings have reduced during the year due to the removal of the Cayman Islands registered companies from the YWFG as disclosed in the Strategic Report on page 2.

11 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Guaranteed bonds (see note 12)	**906,470**	888,573
Amounts owed to group undertakings	**-**	730,787
	906,470	1,619,360

Amounts owed to group undertaking in the prior year represents unsecured loans from Yorkshire Water Services Odsal Finance Limited, having contractual repayment dates and bearing interest at varying nominal rates between 1.524% and 6.625% per annum. During the year, these loans were settled on the removal of the Cayman Islands registered companies from the YWFG as disclosed in the Strategic Report on page 2.

Notes to the financial statements *(continued)*

12 Interest-bearing loans and borrowings

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

	2019 £'000	2018 £'000
Creditors: amounts falling due after more than one year		
Guaranteed bonds	**906,470**	888,573

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2019 £'000	Carrying amount 2019 £'000	Face value 2018 £'000	Carrying amount 2018 £'000
Guaranteed bonds (stranded)[1]	**GBP**	**5.375%**	**2023**	**200,000**	**5,479**	200,000	5,204
Guaranteed bonds (stranded)[2]	**GBP**	**5.500%**	**2027**	**150,000**	**6,657**	150,000	6,587
Guaranteed bonds (stranded)	**GBP**	**6.625%**	**2031**	**240,000**	**784**	240,000	773
Inflation linked guaranteed bonds (stranded)	**GBP**	**3.048%**	**2033**	**100,000**	**(837)**	100,000	(879)
Guaranteed bonds	**GBP**	**5.500%**	**2037**	**200,000**	**195,700**	200,000	195,562
Inflation linked guaranteed bonds	**GBP**	**1.823%**	**2050**	**65,000**	**89,540**	65,000	87,308
Inflation linked guaranteed bonds	**GBP**	**1.462%**	**2051**	**125,000**	**177,117**	125,000	172,732
Inflation linked guaranteed bonds	**GBP**	**1.758%**	**2054**	**85,000**	**117,253**	85,000	114,330
Inflation linked guaranteed bonds	**GBP**	**1.460%**	**2056**	**125,000**	**177,048**	125,000	172,661
Inflation linked guaranteed bonds	**GBP**	**1.709%**	**2058**	**100,000**	**137,729**	100,000	134,295
				1,390,000	**906,470**	1,390,000	888,573

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

Certain bonds, held by the company at 31 March 2009, were exchanged with the bondholders for new bonds issued by Yorkshire Water Odsal Finance Limited during 2009/10. The bonds exchanged have different nominal amounts and applicable interest rates to those of the original bonds. Yorkshire Water Finance plc was substituted as the issuer of these bonds in August 2018 as part of the exercise to remove the Cayman Islands registered companies from the group, as described in the Strategic Report on page 2.

Included within guaranteed bonds are amounts repayable after five years by instalments and otherwise than by instalments of £nil (2018: £nil) and £900,992,000 (2018: £883,367,000) respectively. Borrowings are secured against the assets of the YWFG.

Notes to the financial statements *(continued)*

13 Capital and reserves

Called up share capital	**2019**	2018
	£'000	£'000
Allotted and called up		
50,000 (2018: 50,000) ordinary shares at £1 each (2018: at £1 each)	**50**	50
	50	50

On 31 March 2019, £37,000 (2018: £37,000) remained unpaid in respect to ordinary shares and is included in debtors above as amounts receivable from group undertakings.

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

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

14 Financial instruments

Fair values of financial instruments

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

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

	Carrying amount 2019 £'000	**Fair value 2019 £'000**	**Level 1 2019 £'000**	**Level 2 2019 £'000**	Carrying amount 2018 £'000	Fair value 2018 £'000	Level 1 2018 £'000	Level 2 2018 £'000
Financial liabilities measured at amortised cost								
5.375% £200m bond 2023	**5,479**	**8,075**	-	**8,075**	5,204	8,203	-	8,203
5.50% £150m bond 2027	**6,657**	**9,730**	-	**9,730**	6,587	9,774	-	9,774
6.625% £240m bond 2031	**784**	**189**	-	**189**	773	188	-	188
3.048% £100m inflation linked bond 2033	**(837)**	**116**	-	**116**	(879)	109	-	109
5.50% £200m bond 2037	**195,700**	**282,186**	**282,186**	-	195,562	279,860	279,860	-
1.8225% £65m inflation linked bond 2050	**89,540**	**114,732**	-	**114,732**	87,308	112,944	-	112,944
1.462% £125m inflation linked bond 2051	**177,117**	**206,912**	-	**206,912**	172,732	205,850	-	205,850
1.7576% £85m inflation linked bond 2054	**117,253**	**155,304**	-	**155,304**	114,330	153,790	-	153,790
1.46% £125m inflation linked bond 2056	**177,048**	**215,050**	-	**215,050**	172,661	219,812	-	219,812
1.7085% £100m inflation linked bond 2058	**137,729**	**188,580**	-	**188,580**	134,295	188,670	-	188,670
Total financial liabilities measured at amortised cost	**906,470**	**1,180,874**	**282,186**	**898,688**	888,573	1,179,200	279,860	899,340
Total financial instruments	**906,470**	**1,180,874**	**282,186**	**898,688**	888,573	1,179,200	279,860	899,340

Financial assets or liabilities measured at amortised costs and whose carrying value are a reasonable approximation of fair value have not been disclosed in the fair value hierarchy above as there is no requirement to do so.

Notes to the financial statement *(continued)*

14 Financial instruments *(continued)*

Fair values of financial instruments *(continued)*

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

Financial instruments measured at amortised cost	Valuation technique
Bonds	The fair values of the bonds have been determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. The fair values of the bonds have been determined by reference to market values for similar instruments.

Credit risk

Financial risk management

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

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

Liquidity risk

Financial risk management

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

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

***Liquidity risk** (continued)*

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

	2019						2018					
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000
Non-derivative financial liabilities												
5.375% guaranteed bonds 2023 (stranded bonds)	5,479	8,169	363	363	7,443	-	5,204	8,533	363	363	7,807	-
5.50% guaranteed bonds 2027 (stranded bonds)	6,657	10,721	407	407	1,221	8,686	6,587	11,128	407	407	1,221	9,093
6.625% guaranteed bonds 2031 (stranded bonds)	784	300	11	11	33	245	773	311	11	11	33	256
3.048% inflation linked guaranteed bonds 2033 (stranded bonds)	(837)	80	2	2	5	71	(879)	81	2	2	5	72
5.50% guaranteed bonds 2037	195,700	399,748	11,000	11,000	33,000	344,748	195,562	410,748	11,000	11,000	33,000	355,748
1.8225% inflation linked guaranteed bonds 2050	89,540	140,350	1,637	1,637	4,912	132,164	87,308	138,476	1,597	1,597	4,791	130,491
1.462% inflation linked guaranteed bonds 2051	177,117	260,952	2,590	2,590	7,772	248,000	172,732	257,024	2,526	2,526	7,580	244,392
1.75756% inflation linked guaranteed bonds 2054	117,253	189,751	2,069	2,068	6,205	179,409	114,330	187,075	2,017	2,017	6,052	176,989
1.46% inflation linked guaranteed bonds 2056	177,048	273,814	2,587	2,588	7,762	260,877	172,661	269,564	2,523	2,523	7,571	256,947
1.7085% inflation linked guaranteed bonds 2058	137,729	229,958	2,362	2,362	7,085	218,149	134,295	226,572	2,303	2,303	6,910	215,056
	906,470	1,513,843	23,028	23,028	75,438	1,392,349	888,573	1,509,512	22,749	22,749	74,970	1,389,044

Notes to the financial statements *(continued)*

14 Financial instruments *(continued)*

Market risk

Financial risk management

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

Market risk - Interest rate risk

Profile

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

	2019 £'000	2018 £'000
Fixed rate instruments		
Financial liabilities	**208,620**	208,126
Variable rate instruments		
Financial liabilities	**697,850**	680,447

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

Capital management

.The 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.