

<b>Kelda Finance (No.1) Limited</b>
Annual report and financial statements
Registered number 08066326
For the year ended 31 March 2020

***Kelda Finance (No.1) Limited***  
***Annual report and financial statements***  
***for the year ended 31 March 2020***

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**Contents**

Strategic Report	2
Corporate Governance Report for the year ended 31 March 2020	64
Directors' Report for the year ended 31 March 2020	66
Statement of Directors' Responsibilities for the year ended 31 March 2020	69
Independent Auditor's Report to the Members of Kelda Finance (No.1) Limited	71
Consolidated Financial Statements	74
Consolidated statement of profit or loss	74
Consolidated statement of comprehensive income/(expense)	75
Consolidated statement of financial position	76
Consolidated statement of changes in equity	78
Consolidated statement of cash flows	79
Notes to the consolidated financial statements	80
Company balance sheet	136
Company statement of changes in equity	137
Notes to the company financial statements	138

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **Our Business**

The principal activities of the group are the supply of clean water and the treatment and disposal of wastewater. Yorkshire Water Services Limited (Yorkshire Water or YW), the group's regulated utility subsidiary in UK, is responsible for both water and wastewater services. In addition to the main trading entity, the group also comprises six financing companies, the activities of which are described in more detail on page 42.

### **Yorkshire Water Services Limited (Yorkshire Water)**

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

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

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

### **Our business strategy for Yorkshire Water**

Our ambition is to serve Yorkshire today and long into the future with safe, reliable and affordable water, wastewater and environmental services.

While we are a highly regulated business, our aim is also to go beyond compliance and further support Yorkshire by working in partnership to champion healthy, thriving livelihoods and sustainable economic growth. This approach feels even more important in light of the impacts of Covid-19; and we will be working hard to support the region's economic and social recovery.

Yorkshire Water, along with the other water companies in England and Wales, operate in five year cycles known as Asset Management Periods or AMPs. For each AMP we agree and work to a plan that is developed through extensive assessment, planning and customer engagement. These plans are set in the long term context of a 25 year strategic direction, which we updated in 2018. The planning process is known as the 'Price Review'.

Within our five year plan, the regulatory regime in which we operate includes a process for setting Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs).

The PCs define the levels of service we will strive to achieve on a range of activities which customers and regulators confirm are a priority.

Reputational and, in many cases, financial ODIs accompany the PCs. If we under or over perform against the PCs the financial ODIs come into effect.

2020 is a year of transition as we close out AMP6 and start AMP7. AMP6 covered the five year period ending 31 March 2020. In AMP6, our plan included 26 PCs themed around seven Customer Outcomes. These are summarised in the diagram below. We report our progress and performance in detail through the rest of this Strategic report. We capture throughout this report how we have responded so far to Covid-19. We also consider, as far as we can at this stage, how Covid-19 might shape our plans.








AMP7 is the new five year period. This started on 1 April 2020. We introduce our AMP7 plan over the page, with more details through this Strategic report. In next year's Annual Report and Financial Statements (ARFS) we will report on the first year of our AMP7 plan and our new PCs.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Our AMP6 Customer Outcomes and Performance Commitments

							
Customer outcomes	We provide you with water that is clean and safe to drink	We make sure that you always have enough water	We take care of your waste water and protect you and the environment from sewer flooding	We protect and improve the water environment	We understand our impact on the wider environment and act responsibly	We provide the level of customer service you expect and value	We keep your bills as low as possible
Our performance commitments	<ul style="list-style-type: none"> <li>Drinking water quality compliance</li> <li>Corrective actions</li> <li>Drinking water quality contacts</li> <li>Stability and reliability factor - water quality</li> </ul>	<ul style="list-style-type: none"> <li>Leakage</li> <li>Water use</li> <li>Water supply interruptions</li> <li>Stability and reliability factor - water networks</li> </ul>	<ul style="list-style-type: none"> <li>Internal flooding</li> <li>External flooding</li> <li>Pollution incidents</li> <li>Stability and reliability factor - waste water networks</li> </ul>	<ul style="list-style-type: none"> <li>Length of river improved</li> <li>Visitor satisfaction</li> <li>Working with others</li> <li>Bathing water quality</li> <li>Land conserved and enhanced</li> <li>Stability and reliability factor - waste water quality</li> </ul>	<ul style="list-style-type: none"> <li>Energy generation</li> <li>Waste diverted from landfill</li> </ul>	<ul style="list-style-type: none"> <li>Quality of customer service (SIM)</li> <li>Service commitment failures</li> <li>Overall customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Number of people who we help to pay their bill</li> <li>Value for money</li> <li>Bad debt</li> </ul>

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

for the year ended 31 March 2020

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### **Our long term strategy**

We published a long term strategic direction statement called #notjustwater in August 2018. This can be found at: [www.yorkshirewater.com/biggoals](http://www.yorkshirewater.com/biggoals). This document is due to be reviewed and updated as appropriate over the next 12 to 18 months.

In this we recognise the huge role we can play to support the people and communities of Yorkshire and meet the challenges we all face in the future. Five 'Big Goals' have been identified that will shape everything we strive for. The Big Goals are shown below and replace our Customer Outcomes, described on the previous page.

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

- Consultation and engagement with our customers and other stakeholders - talking to over 30,000 people to help ensure our plans are aligned with their expectations. We asked where we can do better to improve what we do, how we do it, and how we can work better with our stakeholders to make sure that the people of Yorkshire get the best all round value for what they spend on water.
- Analysis of how communities in Yorkshire are made up now and how that will change in the future. We set out to better understand what people value in their lives and the role water plays in that, observing how customers with different lifestyles rely on water in different ways.
- Applying our cutting-edge Six Capitals approach (see page 6) to gain a rich understanding of our impact as a group on the economy, people and environment of Yorkshire.
- Careful consideration of the latest data on wider trends such as the impact of the growing population and changes to the climate.

### **Our 'Big Goals'**

#### **Putting people first**

We're proud to be a people business and a leading employer. We need the most engaged and capable colleagues to ensure we deliver a positive impact on our customers and stakeholders every day. We'll develop a deep understanding of both our customers and colleagues to ensure we design best in class experiences.

#### **Keeping services affordable**

We want our services and bills to be affordable for everyone so no-one need worry about having to pay. To do this we drive high quality and operational excellence through having a culture that champions customer and colleague needs, continuous improvement and innovation.

#### **Being great with water**

We want to play an active role in helping everyone in Yorkshire work together to look after our water. Our customers rely on us to provide safe water, take away and recycle wastewater, work smart to minimise the amount lost through leaks and reduce pollution and flood risk.

#### **Love our environment**

We want to protect the environment in whatever we do. Our customers trust us to look after and sustainably manage the land we own and we want to open it up for everyone to enjoy. We'll lead by example in Yorkshire on big environmental issues like committing to net zero carbon emissions by 2030.

#### **Being a great partner**

We want to lead by example in Yorkshire and we'll use the best from around the globe to do that. We'll be open about what we do, work in collaboration with customers and in partnership with others to help our region, and our business, to grow. We'll celebrate the diversity we have in Yorkshire, opening up opportunities for as many people as possible.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **Our new five year plan to 2025**

Our long term strategic direction statement sets the context for our new business plan for the period from 2020 to 2025, known as AMP7. Next year's ARFS will report on the first year of this plan and how we're performing in working towards our new Big Goals.

In 2018 we published our plan for AMP7, setting out how we proposed to maintain and improve water and wastewater services in Yorkshire to ensure resilience and sustainability for the short and long term; all at a fair and affordable price to customers in their water bills. We built our plan having engaged with our customers and regulators to understand their priorities. You can find our plan at:

[www.yorkshirewater.com/ourbusinessplan](http://www.yorkshirewater.com/ourbusinessplan).

It is Ofwat's role to regulate the five year planning process to ensure we, and all the English and Welsh water utilities, are operating in customers best interests. In early 2020 we asked Ofwat to refer their Final Determination (FD) on our plan to the Competition and Markets Authority (CMA) for what is known as a redetermination. We did this because our assessments showed that Ofwat's proposals would not enable us to ensure resilient and best value services for customers in the short and long term. Three other water companies also took this step. The CMA has started its review and have confirmed this will conclude in 2020/21. In the meantime, we will continue to deliver our plan in line with Ofwat's requirements.

### **Responding to Covid-19**

We keep our strategy under continual review to remain agile to latest circumstances. The unprecedented impacts on society of Covid-19 have affected our business and workforce. We have taken action to help colleagues, communities and supply chain partners through the initial disruption to ensure their safety and to support people's wellbeing. As always, it's been our priority to safely maintain essential water and wastewater services for the public. We explore our response to Covid-19 throughout this report.

Yorkshire Water has an important role to play in responding to the impacts of Covid-19 on Yorkshire communities. We recognise the need and opportunity to integrate the long term response to Covid-19 with other regional priorities such as creating more opportunities for the poorest communities, improving flood resilience and better protecting the region's natural resources. It will be our priority to help ensure an effective long term response that supports the region to 'build back better' and secure healthy, resilient and sustainable communities.

### **Resilience and sustainability are imperatives within our strategy**

Central to our strategy is the need for change. As a group whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to the resilience of our essential water and wastewater services. We also know how important it is that we maintain the trust of our customers and stakeholders by always acting with integrity. To help us make sure that our decision-making deals directly with these matters, we are using the concept of the Six Capitals to go far beyond traditional approaches.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

The Six Capitals are summarised below. On page 8 we show how they are the critical inputs to our business model.



### FINANCIAL CAPITAL

Our financial health and efficiency.



### HUMAN CAPITAL

Our workforce's capabilities and wellbeing.



### MANUFACTURED CAPITAL

Our pipes, treatment works, offices and IT.



### INTELLECTUAL CAPITAL

Our knowledge and processes.



### NATURAL CAPITAL

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



### SOCIAL CAPITAL

Our relationships and customers' trust in us.

We are amongst the global leaders in our application of the Six Capitals approach; deploying it to enhance our resilience and sustainability by informing our risk management, decision-making and investment choices. We are going further than the traditional focus on financial capital by considering the positive and negative impacts and dependencies across the capitals. This helps an organisation grow its understanding to shape decisions with a balanced impact that take account of a broad mix of risk and value, so that more long term sustainable approaches can be targeted.

We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental and social attributes associated with our activities. These consider both our negative and positive impacts to society and the environment. Some examples of our latest progress developing and deploying the Six Capitals approach includes:

- Publishing the findings and methodology of our new assessment of our total impact and value. This follows our first of these assessments, published in May 2018. Our new assessment uses latest best practice to improve the maturity and breadth of our assessment. It also uses latest data and allows us to see trends over time. The publication is called Our Contribution to Yorkshire and is available at [www.yorkshirewater.com/capitals](http://www.yorkshirewater.com/capitals).
- Continuing to apply the Sustainable Finance Framework (SFF) we introduced in January 2019, applying the Six Capitals approach to monitor the impact of our operations and investments. We have now raised £850m of debt through the Framework, which we discuss further in the financial section of this Strategic report. The new Our Contribution report, mentioned above, will incorporate the impact reporting required by our SFF, ensuring an integrated approach. You can find more details about our SFF at <https://www.keldagroup.com/investors/sustainable-finance/>.
- Applying and embedding the Six Capitals assessment functionality that is integrated in our new planning and optimisation system, the Decision-Making Framework (DMF). We used the tool to optimise and report the impact and value of our new five year business plan and we are now working hard to embed this across our business to help shape the design of every asset management solution.
- Using our DMF Six Capitals tool to enhance our understanding of the risk we face from climate change, including economic valuation of this risk. We explore this cutting-edge work in more detail at the end of this Strategic report in the section on climate-related financial disclosures.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **Communicating our progress towards our strategy through this report**

This Strategic report summarises our performance in 2019/20. We explain our latest performance, including where we have been successful in meeting or exceeding our PCs, and where we fell short on a small number of our commitments. We also include our latest understanding of the impact on, and our response to, Covid-19; however it is important to note our understanding and response continues to evolve with latest external developments. We also set out the future challenges we face and our plans to mitigate strategic threats and seize opportunities.

Over the following pages you will find an explanation of our business model and a business performance summary, followed by a section on each of the Yorkshire Water AMP 6 Customer Outcomes where we share headline performance on everything material to our business and services, followed by commentary on the other key group businesses, our corporate structure and a summary of the group financial performance. We also provide an explanation of our approach to risk.

You can also find more detail about the PCs and ODIs in our Annual Performance Report (APR) at: [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

### **Comparing our performance to others**

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

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### BUSINESS MODEL

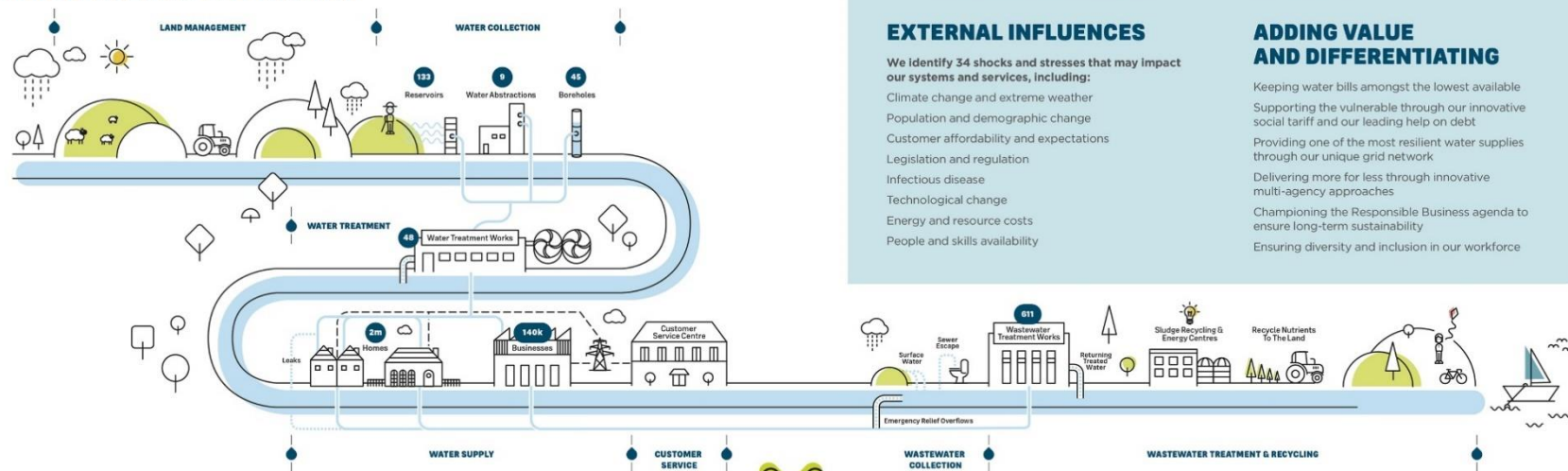
Yorkshire Water is a regulated water and waste water company which serves two million households and 140,000 business premises.

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

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

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

### OUR SOURCE TO SEA OPERATION



### INPUTS

Managed wisely to ensure efficiency and resilience

**FINANCIAL CAPITAL**  
Our financial health and efficiency

**MANUFACTURED CAPITAL**  
Our pipes, treatment works, offices and IT

**NATURAL CAPITAL**  
The materials and services we rely on from the environment, especially water

**HUMAN CAPITAL**  
Our workforce's capabilities and wellbeing

**INTELLECTUAL CAPITAL**  
Our knowledge and processes

**SOCIAL CAPITAL**  
Our relationships and customers' trust in us

### EXTERNAL INFLUENCES

We identify 34 shocks and stresses that may impact our systems and services, including:

Climate change and extreme weather  
Population and demographic change  
Customer affordability and expectations  
Legislation and regulation  
Infectious disease  
Technological change  
Energy and resource costs  
People and skills availability

### ADDING VALUE AND DIFFERENTIATING

Keeping water bills amongst the lowest available  
Supporting the vulnerable through our innovative social tariff and our leading help on debt  
Providing one of the most resilient water supplies through our unique grid network  
Delivering more for less through innovative multi-agency approaches  
Championing the Responsible Business agenda to ensure long-term sustainability  
Ensuring diversity and inclusion in our workforce

### TRANSITIONING TO OUR NEW LONG TERM STRATEGY AND BIG GOALS



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



We make sure that you always have enough water



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



We protect and improve the water environment



We understand our impact on the wider environment and act responsibly



We provide the level of customer service you expect and value



We keep your bills as low as possible



### HOW WE CREATE VALUE

Delivering our vision: Taking responsibility for the water environment for good

**Healthy communities**  
**A clean environment**  
**Economic growth**

### PLAYING OUR PART IN ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS



# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

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

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

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Service Incentive Mechanism (SIM)</b> Score out of 100 for the quality of our customer service	<b>84.0</b>	Year-on-year improvement	83.2**	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. °
<b>Overall customer satisfaction</b> Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	<b>95% water 88% wastewater</b>	Average 2015-20 performance to be better than average in 2010-15: 92% water 92% wastewater	94% water 90% wastewater	
<b>Service commitment failures</b> Number of times we did not meet minimum standards	<b>14,221</b>	Average 2015-20 performance to be less than average 2010-15 performance: 12,552	15,140 (Year) 12,497 (AMP6 average)	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

\*\*Ofwat revised the customer satisfaction metric over 2019/20 in preparation for new AMP7 metrics. We have continued to focus on improving customer service throughout AMP6. Our SIM score out of a maximum of 100 points increased from 82.6 in 2015/16 to 84.0 in 2018/19, the last year it was used as a comparative measure in the industry. The score reported above is the Ofwat 'shadow' measure which represents the move from SIM to C-Mex.

° AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

In order to meet this Outcome, we believe we need to be one of Yorkshire's most customer valued organisations generating high customer satisfaction through brilliant Yorkshire Water people achieving greater productivity and effectiveness as a result.

### Becoming one of Yorkshire's most customer valued organisations

The Service Incentive Mechanism (SIM) has been the water industry regulatory measure of customer service since 2010, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. Ofwat are replacing the SIM with a metric called the Customer Measure of Experience (C-Mex) from 2020 onwards and have trialled this in 2019/20. In these shadow C-Mex surveys we have seen an improvement in overall performance compared to the SIM, ranking sixth out of 17. In the SIM our average score for the four years from 2015/16 to 2018/19 was 83.51 which left us 11th in the rankings.

In order to provide a comparative score to SIM, Ofwat have provided a proxy calculation. The qualitative element is taken from the C-MeX Customer Service Survey and the quantitative from the number of written complaints only.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

The methodology and satisfaction scales in the survey do not match but give an indication of performance in customer experience. The quantitative element of the measure is very different and no longer includes unwanted telephone calls. Direct comparisons are not therefore reliable.

The score by this proxy method was 83.2 which is lower than the SIM measurement of 84.0 in 2108/19. This indicates the performance commitment was not achieved based on this calculation. This year we saw an increase in waste complaints and lower than expected satisfaction scores. This coincided with the insourcing and transformation of Wastewater Field Services. This project involved significant change in the business and for a period impacted on response and resolution times for our customers. In early 2020 additional resources were in place and fully trained. This will allow increased working hour availability and the deployment of more vehicles to respond to issues. Signs of improvement were seen in the quarter four 2019/20 satisfaction scores.

It's pleasing however, that our comparative ranking in C-Mex is showing an improvement. Our focus in 2019/20 has been to develop a customer experience strategy fit for the future needs of our customers. The good results in the C-Mex shadow surveys gives us confidence we are set up to improve.

Our customer service is also measured by the CCW through an independent survey of customer satisfaction. The latest results for Yorkshire Water show high levels of overall customer satisfaction: 94% for water services and 90% for wastewater services. Our scores in 2019/20 show we have improved overall compared to last year and performance is in line with the previous AMP.

The number of service commitment failures have increased this year from 14,221 to 15,140. Although water supply interruptions have reduced there has been an increase in sewer flooding and failures to keep appointments. However, our performance commitment has been achieved based on the average number in this AMP (12,497) being less than in the previous period (12,552).

We know that customer expectations are growing and this has also been recognised by the regulator who has changed the way we measure our customer experience increasing the level of assessment to a much broader experience survey. The past few months have seen extensive development work to build a new customer experience strategy which has considered a broad range of insight and feedback both from internal colleagues and customers within Yorkshire Water and external broader customer experience insight in the UK. It also seeks to address the challenges faced by Yorkshire Water both through the delivery of regulatory plans and the external societal and environmental pressures in Yorkshire. Through this work customers have told us that they need an experience that does more than simply meet their needs and that they need companies like us to be creative, resourceful and sustainable. We need to focus on building longer term relationships with our customers to enable an experience that they really value.

The new strategy challenges Yorkshire Water to grow a Customer Experience organisational mindset to think customer across every part of our operation, linking a focus on customer to achieving our performance outcomes as a business. The new strategic intent is to be one of Yorkshire's most customer valued organisations generating high customer satisfaction through brilliant people, and achieving greater productivity and effectiveness as a result. The strategy comprises three key focus areas: firstly, breaking away from industry stereotypes to create a stronger community focus; secondly, applying our understanding of customer lifecycle and need states; and finally, recognising and influencing customer emotion.

The implementation of the strategy has been split into five key delivery streams:

- Super easy customer focused journeys and experiences
- Insight, processes & systems built around colleague and customer emotion
- Customer quick fix solutions
- Creating a people first experience
- Brilliant Customer Engagement driving customer focus with partners & regulators.

The first key activity is the launch of the new customer promise in May 2020 after which the implementation plan will commence and progress driven and measured appropriately. A broader five

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

year capability map has been produced to ensure regular review against meeting the objectives of the strategy and close working with relevant areas.

### **Engaging with customers and stakeholders**

Over the course of 2019/20, we continued to adapt the nature of our conversations with our customers and stakeholders. Rather than the traditional approach of talking to customers about what we do as a company, our focus has been on understanding individual lifestyles and how they shape what customers want, need and expect from us. With the help, support and challenge from the Yorkshire Forum for Water Customers, we have been able to develop a much richer understanding of the diversity of Yorkshire's people, their individual needs and how best we meet these now and into the future.

Our Corporate Affairs Team undertakes continuous customer, stakeholder and colleague engagement to inform and shape our day-to-day service delivery and this participation has been crucial to the development of our business and operational planning. The team employs a range of research and wider engagement techniques to ensure customers and stakeholders provide us with the insight to inform and support our ongoing activity. These include:

- An online customer community of more than 1,000 customers, representative of the Yorkshire region who take part in regular surveys and discussions on a range of issues.
- An ongoing program of qualitative and quantitative customer research to inform our plans and to test key initiatives, for example during 2019/20 customers have been central to the development of our customer campaigns and customer experience strategy.
- Continued work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- An independent survey of our key stakeholders on their views on Yorkshire Water, how we work with partners and how our priorities are decided, to be repeated every two years.
- A stakeholder account management program, with stakeholders assigned an account manager from Yorkshire Water to lead on developing opportunities to work together.
- Political monitoring and sentiment analysis to understand the expectations and priorities of politicians.
- The continuous measurement and reporting of customer and stakeholder reputation management.

In 2019/20, this engagement with customers and stakeholders has resulted in:

- Yorkshire Water joining the Leeds Anchor Network, a group of organisations including the Local Authority, NHS, universities and colleges who have committed to working together to target procurement, recruitment and service delivery activities to help boost local employment, business growth, skills, incomes, health and wellbeing.
- The instigation of a Yorkshire wide Land Anchor Network, bringing together Yorkshire's biggest landowners to discuss how they can address some of the region's biggest challenges by managing land differently.
- The development of a proposal for a 'social contract' based on customer, colleague and stakeholder research which builds on deep local partnerships based on the anchor institutions model.
- An award-winning approach to communicating with customers about water resources and their personal water use, based on in depth customer research.

### **Securing customer and stakeholder trust**

It is important that you can be sure of the quality of the information we publish, so that you can be confident in us and how well we are doing in delivering the promises we made to you. We want our customers to trust that the information we publish is accurate, accessible and easy to understand. It is important to us that we get it right for our customers. Our board is accountable for the quality of our information and we want to make sure it meets your needs.

We publish our assurance plan to explain the process we have in place to give confidence that the information we publish is accurate and accessible. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets customers' and stakeholders' needs. Our assurance approach is risk-based and uses a method called 'three levels

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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of assurance', which is best practice. Risk-based assurance means we do more checks over areas that have more potential to go wrong. We want to make sure that the things we do behind the data are working as well as possible and that you understand what the data means when we talk about our performance. You can find our assurance plan on our website at this link:

[www.yorkshirewater.com/attachments/assurance-plan/](http://www.yorkshirewater.com/attachments/assurance-plan/)

We have made considerable improvements in the transparency of our financial and other reporting. We have worked hard to ensure all our published information in 2019/20 has been easy to access, and easy to read and understand. Throughout the last year, this has included making our APR data table information available in excel format, continuing to improve our reports page on our website and continuing to work with the Yorkshire Forum for Water Customers and our online research community of over 1,000 Yorkshire Water customers to provide feedback on the reports we publish.

We continue to follow the requirements of Ofwat's Company Monitoring Framework (CMF) and try to exceed expectations in the transparency of our reporting. We were assessed as "targeted" in Ofwat's last CMF assessment in January 2019. Due to Ofwat being in the process of evolving their approach to performance monitoring, Ofwat has not published any further CMF assessments since January 2019, but have asked that all companies continue to follow the requirements of a targeted company. Although Ofwat have not provided a formal CMF assessment, they have provided very useful feedback on the Annual Performance Report and on how companies are managing reporting against the Board Leadership, Transparency and Governance principles. This feedback has helped us identify what we need to continue doing and also areas where we can continue to improve. Improvement areas have been identified for our dividend policy, the ring fencing certificate and our statement on compliance with the Board Leadership, Transparency and Governance principles. This feedback has been incorporated into our improvement action plans for regulatory reporting.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

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

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Drinking water quality compliance<sup>#</sup></b> Percentage compliance with legal standards	99.962%	100%	99.949%	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. <sup>o</sup>
<b>Stability and reliability – water quality</b> Improving / Stable / Marginal / Deteriorating	Stable	Stable	Stable	
<b>Drinking water quality contacts</b> Number of customer contacts regarding water quality	7,964	≤ 6,108	6,368	
<b>Drinking water corrective actions<sup>#</sup></b> Number of emergency interventions to protect customers	5	≤ 6	1	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

<sup>#</sup> Calendar year measure.

<sup>o</sup> AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

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

### Maintaining excellent drinking water quality

During the period 2015 to 2019 we set ourselves a very ambitious target of reaching 100% sample compliance with the very high standards set by the Drinking Water Inspectorate (DWI). No Water and Sewage Company (WaSC) in the UK has yet achieved this target, and the condition of water collected by us in samples is not wholly under our control. Nevertheless, this target remains a continuation of a long term goal and requires us to make improvements in the way we collect, treat, and distribute water from source to tap.

Whilst our water quality remains exceptionally high, in 2019/20 we saw a slight decrease in the sample compliance to 99.949%. The decline in performance was primarily related to an increased number of samples being found to contain raised levels of mains sediments, such as iron, manganese, or turbidity. These parameters are not health impacting at the concentrations detected, and none of the property owners indicated dissatisfaction with the supply of water at the time of collection. However, the levels of these parameters indicate a risk of later discolouration of supplies.

Although there was an increase in the number of samples exceeding the standards, the average iron concentration in samples was historically low. In-depth analysis undertaken during the year has highlighted that the period of most unusual performance was January and February. Changes to the condition of mains systems happen slowly, and so it is likely the performance in this part of 2019/20 was still influenced by the unusually high demand year of 2018/19. Later in the year there was also an unusual number of samples that were influenced by private issues within domestic properties.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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We continue to undertake an extensive programme of flushing within local areas, as well as 'conditioning' larger mains to permit high levels of flow without impacting on the quality of water supplied to customers. This activity will continue to drive down the level of sediments in water.

There was a significant reduction in the number of occasions that customers contacted the company regarding water quality concerns. Overall, there were 6,368 contacts from customers in 2019/20, down from 7,964 in 2018/19. One important factor in this improvement was the reduction in discolouration due to the continuing impact of our flushing programmes. But it was also important that there was a clear drop in the number of tastes or odours noted by customers. This will primarily be due to our steady and carefully controlled operation of our supply grid.

There were no new water treatment works or storage facilities in 2019/20, so it was a year of consolidation of performance. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs as well as the measure of particles in the water supplied from our sites. We met each of these targets individually, and our overall performance in 2019/20 has been at our target level of "stable" for five years.

We investigate every instance of suspected deterioration of water quality, and we share the outcome of our investigations with the DWI as well as local health authorities in Yorkshire. In total there were 26 events investigated in 2019 (calendar year measure), a reduction from 31 in 2018. Most events were associated with third party activity or were the result of private fittings within individual customer properties. Only five events were considered to be "significant" by the DWI, a clear reduction from 14 in 2018. Each event was subject to review and lessons were learned. Only one of the five events resulted in a recommendation from the DWI. This means that 2019 was our best ever year on this measure and our commitment to have no more than six events with corrective actions was achieved for each of the past five years.

### **Protecting raw water quality**

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

Peat moorlands are especially important to us because they are the source for a large proportion of drinking water in Yorkshire. The water sourced from degraded peatland requires extra treatment to remove contaminants picked up in the run-off from eroded soils. We work in partnership to maintain and restore parts of Yorkshire's peatland by re-introducing native plants, managing invasive species and blocking man-made drains to slow the water flow and restore the water table. Through our collaborative working (see our Working with Others section on page 25), we are increasingly active and effective in peatland management and are growing the amount of land being restored. However, there is also much more to do, by us and others, to fully protect raw water quality.

We also collaborate with the Environment Agency (EA), Natural England and the National Farmers' Union to protect water catchments by developing safeguard zone action plans. We had an agreed programme of work to help address sources of water pollution between 2015/16 and 2019/20. This included working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldehyde slug control pellets. We have also investigated nitrate and other pollutants that present risks to several of our groundwater sources. We will be continuing with these programmes into AMP7.

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

# ***Kelda Finance (No.1) Limited***

## ***Strategic Report***

*for the year ended 31 March 2020*

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In 2019/20, through our collaborative agriculture initiative, Sustainable Landscapes, we supported the removal of approximately 12 tonnes of metaldehyde pellets from the three pilot areas, which were replaced with ferric phosphate, thereby assisting in our water quality compliance target. We also supported the growth of cover crops, which afford protection to the soil, but mop up residual fertilisers and build organic matter. An increase of 1% organic matter can store an additional 200 tonnes of water per hectare. Not only does this help drive biological functionality of soils, but also has the potential to mitigate flooding by using farmland as a sponge. We have also developed the Good Soils Guide, which will be a free to access soil resource for farmers to use and is being developed by one of the UK's leading soils scientists. During this financial year, we have continued to investigate the potential for the food and drink supply chain to reward more sustainable farming practices, through a carbon-based resilience credit.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

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

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Stability and reliability – water networks</b> Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. °
<b>Water supply interruptions</b> Average interruption per property served, in minutes and seconds	10 minutes, 28 seconds	≤ 12 minutes	7 minutes, 34 seconds	
<b>Leakage</b> Total leakage in million litres per day, MI/d	289.8 MI/d	287.1 MI/d	270.8 MI/d	
<b>Water use</b> Average consumption per head of population, in litres per head per day, l/h/d	133.5 l/h/d	138.3 l/h/d	135.0 l/h/d	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

° AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

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

### Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans, since 1995. In 2019/20 we have maintained "stable" status in the Performance Commitment for the stability and reliability of our water networks. The status of this commitment is determined by a basket of six measures which demonstrate the effectiveness of our long term planning and asset management to ensure the resilience and sustainability of our service.

The risk of water shortages, supply interruption or discoloured water is a constant priority for us because of the consequences to our customers and operations. Our operational and investment programme includes a range of activities to maintain and enhance services, for example flushing the network to minimise the risk of burst dislodging sediment on the inside of a water main and causing discoloured water, managing pressure in the network and installing further data loggers to improve our knowledge of how the network operates. Helping our customers to use water as efficiently as possible and understand the role that they can play is also central to our plans.

We sometimes need to temporarily interrupt customers' water supplies to undertake emergency and planned maintenance. At 7 minutes, 34 seconds, in 2019/20, we have performed considerably better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers. This measure, alongside leakage, was targeted as one of the key PCs that we wanted to improve upon over the last two years. The operational measures and capital investments made have enabled sustained performance improvement, which we aim to continue to improve upon over the next five years.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. In the summer of 2018 we experienced a period of hot and dry weather, and demand remained high for an unprecedented prolonged period.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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This led to the crossing of 'control lines' in our Drought Plan. These are trigger points which, once reached, result in escalated levels of action to maintain resilient water supplies. We applied for, and were granted, two drought permits to temporarily increase river abstractions limits. The permit applications were a precautionary measure and we did not need to use them. Our Drought Plan contains several options to tailor our response to the exact conditions of any drought as it develops. Our planning enables us to act quickly because pre-determined options have been assessed for their potential environmental impact and mitigation strategies developed. The two drought options applied for in 2018 were new options identified during the developing drought as low environmentally impacting actions. We learn from each drought and update our Drought Plan accordingly. The two additional options have now been added to our Drought Plan and the plan republished and consulted on in 2019.

Our Water Resources Management Plan (WRMP) describes how we will maintain the balance between water supply and demand over the next 25 years. If there is a risk of the supply demand balance falling into deficit we will take action to remove the risk. Our current WRMP forecasts a risk of a deficit in our supply area from the mid 2030s onwards, due to the potential for climate change to reduce available water supplies. Our proposed solution to this risk is to reduce leakage as detailed in the section below.

Our Drought Plan and WRMP can be found at:

[www.yorkshirewater.com/resources](http://www.yorkshirewater.com/resources)

In line with our duties under the Water Industry Act 1991, we revise our Drought Plan and WRMP every five years to ensure they reflect the most up to date information and potential risks to security of supply. Each iteration of our plans is subject to a public consultation to allow customers and stakeholders to comment. Our latest WRMP was published in March 2020 and our updated Drought Plan was published in May 2020.

In March 2020 the EA published its National Framework. This sets out its expectations for water companies to work in collaboration with each other and other water abstractors to produce regional water resource plans to consider the long term needs of all sectors that depend on a secure supply of water: public water supply, agriculture, energy generation, industry and the environment. Yorkshire Water is part of the Water Resources North regional group which also includes Northumbrian Water and Hartlepool Water. Also in March 2020, each regional group published an initial resource position. Over the next two years, regional groups will create and consult on their regional plans, which will identify strategic regional solutions to multi-sector risks. The next water company WRMPs will be consistent with the regional plans and include any regional solutions that impact on their supply demand balance.

### **Leakage**

Leakage is the amount of water lost from our network when it's being transported between the treatment works and customer homes or businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. Over the previous two years, we have increased resources, and improved both technology and data analysis to refine our approach to leakage reduction. This approach ensured that the Performance Commitment target of 287.1 megalitres per day was achieved with a figure of 270.8 megalitres per day. We reduced leakage by 6.6%. The 2019/20 performance was our single biggest in year reduction of leakage when not proceeding an atypical winter, such as those experienced in 2010/11 and 2018/19.

Our leakage reduction strategy is well under way now. The additional resources employed to undertake proactive leak detection are in place and finding more leaks to reduce losses from our network. To complement the resources, this year 40,000 acoustic listening & logging devices were installed in the top 20% of poorest performing leakage areas. Satellite leakage detection has become an essential method of ensuring we locate and repair leaks as quickly as possible, and this new technology is now utilised across the whole region. The key driver for these new technologies is to improve effectiveness of leakage detection and to achieve our goal of being upper quartile. The establishment, and additional focus, of a dedicated leakage team for our larger trunk mains is demonstrating worthwhile investment and will be continued through the next five year period. We continue to embed and improve the data and analysis associated with measuring leakage along with its contributing factors.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

Plans are in place to reduce leakage by 15% by 2025, as defined through the AMP7 Price Review process. In the WRMP submitted to the Department for Environment, Food and Rural Affairs (Defra) and the EA as noted on the previous page, we set ourselves an ambitious leakage reduction target of 25%, however we are unlikely to meet this stretching goal in AMP7 due to the funding levels for leakage reduction included in the AMP7 FD. We remain committed to a longer term ambition to reduce this further and support increasing challenge on our resilience to climate change.

### **Working with customers to save water**

We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2019/20 we gave away 21,735 free water saving packs. We also delivered our "Fit2Save" free home audit and retrofit service to 1,164 household customers. This was delivered to homes in the Halifax, Barnsley and Rotherham areas and we will be offering the service to more customers and to Yorkshire Water colleagues in 2020. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. This has helped us achieve our Performance Commitment for water use, with per capita consumption out turning at 135.0 l/h/d in 2019/20 against a target of 138.3l/h/d.

We provide a range of water saving advice and support:

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

More information can be found on the dedicated water efficiency section of our website at [www.yorkshirewater.com/savewater](http://www.yorkshirewater.com/savewater).

### **Water Bidding Market**

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

We have discussed potential future transfers with third parties including neighbouring water companies as part of revision to our WRMP. Our WRMP does not include any new imports and we have not received any requests from other abstractors. We aim to reduce our leakage by a minimum of 15% by 2025. This will create a surplus in our region, making us robust to climate change risks and creating greater potential for us to offer trades to other abstractors.

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water

# ***Kelda Finance (No.1) Limited***

## ***Strategic Report***

*for the year ended 31 March 2020*

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resources planning, and associated investment to maintain a secure supply of water to our customers. We have produced a Bid Assessment Framework and a Trading and Procurement Code both of which provide information on how to submit a bid and how it will be assessed. In April 2020 we launched a new webpage dedicated to the Water Bidding Market to provide potential bidders with the most up to date information on the process and our own company needs. This information will enable third parties to submit bids to either supply water resources or provide demand management or leakage services in Yorkshire.

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

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

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

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Internal flooding</b> Number of incidents	1,692	≤1,919	1,602	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. <sup>o</sup>
<b>External flooding</b> Number of incidents	9,116 <sup>+</sup>	≤10,487	9,139 <sup>+</sup>	
<b>Pollution incidents<sup>#</sup></b> Number of incidents	Category 1 and 2 †	≤ 2	7	
	Category 3 †	≤ 211	159	
<b>Stability and reliability – wastewater networks</b> Improving / Stable / Marginal / Deteriorating	Stable	Stable by 2020	Stable	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

<sup>#</sup> Calendar year measure.

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

<sup>o</sup> AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

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

### Managing overall flood risk

We continue to play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short term incidents and long term plans. We continue to invest in the region's drainage network and reduce the risk from sewer flooding, and we have further increased our proactive maintenance of the sewer network in 2019/20 removing sewer blockages and maintaining sewer capacity. Through this activity we were targeting areas where previously customers have experienced a range of issues with the view that future incidents can be reduced or completely avoided. This has been coordinated approach with communication campaigns running alongside the onsite activity to inform customers of the causes of some issues and the role they can play to improve the situation.

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

In 2019/20, we again achieved our PCs for internal and external sewer flooding. The number of sewer flooding incidents both internally and externally have reduced on the previous year.

We continually invest across the region and collaborate with others to reduce flood risk. Below are some examples of the progress in 2019/2020:

- We have delivered over 840 hours of education to nine schools through the Living with Water Partnership in Hull and East Riding. We have also supported with engagement at events such as The Big Malarkey Literature Festival to raise community awareness of flood risk.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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- We have collaborated with Hull City Council, East Riding of Yorkshire Council, Sheffield University and iCASP to share the telemetry data that each Risk Management Authority generates to identify new opportunities to work together and better respond to rainfall events.
- We have jointly invested in two feasibility studies with Doncaster Council to look at potential partnership opportunities to reduce the flood risk to two communities.
- We have shared sewer modelling with our Lead Local Flood Authorities including Leeds City Council to help identify opportunities to jointly manage flood risk across the region, in particular looking at opportunities for surface water flooding.
- We have worked alongside all our partner organisations throughout the exceptionally wet winter of 2019/2020 and activated multi-agency flood plans to reduce flood risk to properties across the region.

### **Preventing pollution from our network**

The number of pollution incidents in 2019 achieved our Performance Commitment for Category 3 (Minor) pollution incidents (159 versus a target of 211 or fewer). In our 2019 reporting, we have excluded nine consented storm spill events, which would have previously been recorded in this measure, due to revised guidance from the EA. The nine incidents excluded have been deemed by the EA to be compliant combined sewer overflow (CSO) discharges and are deemed not to be having an unacceptable impact on the environment. This updated guidance was confirmed by the EA in March 2020, and we have excluded these incidents from the performance commitment to ensure alignment with EA reporting.

However, we are above target for Category 1 and 2 incidents (Major or Significant) with seven Performance Commitment impacting incidents against a target of nil, although this is an improved position from 2018 (11 incidents). This means we have failed this Performance Commitment overall. During 2019/20 there were no prosecutions for pollution incidents.

We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents and challenging targets for AMP7.

Our pollution reduction plan also contributes to and follows our approach to resilience to help maintain and enhance resilience in all areas of our business and services.

Our pollution reduction plan is founded on three pillars:

1. Operational Excellence – Enhanced operational maintenance and an industry leading response to pollution risk and management.
2. Data and Technology – Data driven risk assessment and planning.
3. Totex Investment – Totex investment is about choosing the optimal balance of operational activities and capital investment initiatives in a prioritised format to drive the most effective sustainable outcomes.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Customer Outcome: We protect and improve the water environment

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Stability and reliability – wastewater quality</b> Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. °
<b>Length of river improved</b> Total cumulative length in kilometres, km	39.6km (water) 0km (wastewater)	≥ 100km (water); ≥ 340km (wastewater) by 2020	107.0km (water) 351.5km (wastewater)	
<b>Bathing water quality<sup>#</sup></b> Number of Yorkshire's designated bathing waters that exceed minimum legal standards	17	≥ 15	16	
<b>Land conserved and enhanced</b> Total cumulative area in hectares, Ha	11,524	≥ 11,736Ha by 2020	11,806	
<b>Recreational visitor satisfaction</b> Percentage of satisfied customers when surveyed	99%	Survey and publish figures annually	99%	
<b>Working with others</b> Number of solutions delivered in partnership with others	11	≥ 4	11	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

<sup>#</sup> Calendar year measure.

<sup>°</sup> AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

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

### Reducing pollution and enhancing river water quality

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

We have completed the majority of our programme of environmental investment which contributes to our Performance Commitment to improve 440 kilometres of river by 2020/21. Unfortunately at Leeming Bar, the commissioning of the site has shown that long term compliance would be at risk without the ability to utilise additional dosing, which hasn't been required on any other site. Despite delivering the normal asset solution at the site to the required timescales, we have not been able to claim the output at this stage, and this reduces our reported river length to 352km compared to our internal target of 357km. The necessary permits have now been secured for additional dosing during May 2020 and the site is now fully compliant with its permit. We have however exceeded our Performance Commitment value of 340km for Wastewater.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

The EA annually completes an Environmental Performance Assessment of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and wastewater treatment works compliance. The EA has not announced their assessment at the time of publication but we expect our 2019 calendar year performance as 'Good' with three out of a maximum four stars in their rating system. Our performance in the EA's assessment has improved on last year, predominantly driven by a decrease in serious pollution incidents as discussed in the previous section.

The EA report shows our overall treatment works compliance in the 2019 calendar year to be 97.5%, which is the same as our performance in 2018.

Two of our 611 wastewater treatment works did not meet their numeric discharge permit conditions in 2019, securing 99.3% compliance. This was an improvement in performance compared to 2018 when we had six failing wastewater works or 98.0% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

Three of our 21 water treatment works with an environmental discharge permit failed their permit limit. This is a reduction in performance since 2018. We also operate a further 29 water works which do not require a discharge permit. A comprehensive plan is in place to reduce the number of these failures.

We had three failures in 2019 from our UV disinfection systems on wastewater treatment works. This is a reduction in performance since 2018 when there were zero failures.

We also invest to protect the water environment from pollution caused by escapes from our sewer network. We discuss this in the "We take care of your wastewater" section of this report on page 20.

### **Investing in the region's bathing waters**

Yorkshire Water have continued to enhance our asset base to ensure its resilience. We have achieved the Performance Commitment to maintain at least 15 beaches at an Excellent or Good legislative standard. 16 of our 19 beaches met these high standards and are going beyond the minimum legal requirement.

The table below shows the number of designated bathing waters in Yorkshire which achieved each of the water quality classifications defined by the Bathing Water Directive.

<b>Classification</b>	<b>2016<sup>#</sup></b>	<b>2017<sup>#</sup></b>	<b>2018<sup>#</sup></b>	<b>2019<sup>#</sup></b>
Excellent	11	5	5	8
Good	6	13	12	8
Sufficient	1	0	1	1
Poor	1	1	1	1
Unassessed	0	0	0	1

<sup>#</sup> Calendar year measure.

2019 has seen an improvement from Good to Excellent status at four beaches, Robin Hoods Bay, Scarborough North, Reighton and Hornsea. All other beaches have maintained their 2018 status, apart from Tunstall which is unassessed, which due to coastal erosion was unsafe for the EA to access for sampling. This unassessed beach is reflected in the reduction from 17 to 16 Good or Excellent beaches from 2018/19. With Bridlington South and Scarborough South remaining Sufficient and Poor respectively, we are continuing to work with the Yorkshire Bathing Water Partnership to investigate and implement measures to improve quality.

Of the eight resort beaches in Yorkshire, three will be able to apply for the coveted "Blue Flag" status in 2020, a three-fold increase from 2019 with Scarborough North and Hornsea now joining Whitby in eligibility. A Blue Flag demonstrates that the beach complies with a range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met and other organisations also play a key part in achieving this aspiration.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

We continue to work closely with other stakeholders as part of the Yorkshire Bathing Water Partnership to play our part in achieving excellence on Yorkshire's designated beaches. Examples of partnership working that has identified and resolved risks include: practices employed by sea traffic (boats – leisure and fishermen); partnership campaigns such as "Do Your Bit" to reduce seagull impact; and improved practices with waste disposal that has made a real difference, particularly in Scarborough North.

### **Delivering exceptional land for Yorkshire**

As one of the three largest landowners in Yorkshire, we are also the 16<sup>th</sup> largest landowner in the United Kingdom with around 28,000 hectares of land. We are developing a Land Strategy for those land holdings using the vision above. The Yorkshire Land Anchor Network brought together the largest landowners, experts and influencers to define how we can collectively manage land to deliver more for Yorkshire.

The strategy will assess international, national, regional and industry strategies and best practice to manage the land we own, primarily for the purposes of Water Quality & Availability, Water Attenuation, or Carbon Sequestration. We have developed objectives and initiatives that will be delivered through an Integrated Implementation Plan utilising our innovative Six Capitals approach to sustainable accounting (see page 6 for more detail on the Six Capitals).

Our flagship land management focussed partnership with the National Trust is progressing well with three key areas of action on catchment management, influencing of relevant policy and engagement with the people of Yorkshire. In addition, we continue to work with many organisations with interests ranging from the uplands to those helping our operational sites and assets including Natural England, Nidderdale area of outstanding natural beauty (AONB), Pennine Prospects, Moors for the Future, Northern Forest and Woodland Trust, as well as the numerous more local groups supporting the running of our recreational assets and, at Dronfield, public engagement with an operational detention basin.

As the AMP6 investment period closes, we have delivered our Performance Commitment to conserve and enhance 11,806 hectares of land featuring sites of special scientific interest, Ancient Woodlands, river restoration schemes and biodiversity schemes. We also worked to understand how we take that work forward and further into a similar AMP7 Performance Commitment that will focus on Sites of Special Scientific Interests (SSSIs), biodiversity improvements, Local Wildlife Site improvements and the company's innovative Beyond Nature approach to farming. The first Beyond Nature farm, Humberstone Bank, has enhanced biodiversity, improved water quality and increased carbon storage capacity, whilst the Upland Hub based on the farm has been very well used throughout the year.

Yorkshire Water committed in 2017 to plant one million trees by the end of 2028. In partnership with tenants, Woodland Trust, National Trust, White Rose Forest Partners, Wildlife Trust and others, 215,000 trees were planted by the end of March 2020, and we have engaged with the Northern Forest and wider water industry on this.

We continue to provide a wide and diverse range of recreational opportunities across our estate with over 50 clubs and organisations undertaking activities on our land and reservoirs. The AMP6 Performance Commitment on Visitor Satisfaction was met with the most recent survey maintaining the 99% level of visitors satisfied or better. Tophill Low Nature Reserve had to be closed for part of the year following significant flooding, but visitors will hopefully see even more wildlife highlights on re-opening. The reserve was highly commended in the 2020 Remarkable East Yorkshire Tourism Awards. The access, woodland and recreation aspects of our land holdings are a key part of both the Land Strategy and Land Anchor Network with many opportunities to utilise those assets to benefit the people of Yorkshire. One aspect of this will be to review and trial approaches that enable a more representative sample of our customers to enjoy the assets we manage.

There has also been a lot of activity on and around our operational land estate where any proposals or opportunities are reviewed in accordance with our Six Capitals approach, including installation of solar power at our Buttershaw site. We have advanced our understanding and plans in this area, with future activities to include: converting bio-gas for supply into the national gas grid; photovoltaic solar energy to supply our operational assets, off-setting of our operational carbon emissions; and managing dormant operational land to remove or mitigate problems for operational colleagues. There has also been an Industry wide initiative on Sustainable Urban Drainage assets (SuDs) to provide

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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water storage and ecological improvement. We are working with local authorities in Hull to plan SuDs developments with the aim of reducing flood risk in this area.

### **Working with Others**

AMP6 was the first regulatory period where we had a performance commitment called Working with Others. This performance commitment is designed to encourage cultural change within the company by driving a more externally focussed approach to resolving issues, in acknowledgment that there are some problems we are unable to solve without the cooperation and collaboration of others. These include working with other landowners to restore and protect habitats, tackling invasive species, or removing obstacles to fish passage. Working in partnership enables much larger, landscape scale changes to be achieved, thus providing additional benefits to our customers and the environment than working alone. Partnership contributions are often also crucial in leveraging significant additional funding from the EU, National Lottery or other funding sources, again enabling much larger and more beneficial schemes to progress than working alone.

In 2019/20 we have outperformed the Working with Others Performance Commitment, delivering 11 partnership projects against the target of four. We have worked with more than 25 different organisations to deliver projects which have protected raw water quality, enhanced biodiversity, stored carbon, slowed the flow of flood water, removed barriers to salmon on the River Don, eradicated invasive species, trained up hundreds of volunteers, installed rain gardens at 12 schools, revealed 1,000 previously unknown sites of historical significance in the South Pennines and leveraged significant additional funding for further projects across the region.

Yorkshire Water has contributed £2.2m towards this years' 11 projects which, together with other partner organisations contributions, represent £26.5m of investment, much of which would not have been possible to leverage had it not been for the matched financial contribution from Yorkshire Water.

More detail on these projects is shown in our Annual Performance Report available at: [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

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

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Waste diverted from landfill</b> Percentage of our waste diverted from landfill	99.6%	≥ 95.0%	100.0%	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. °
<b>Renewable energy generation</b> Percentage of our energy needs generated by renewable technology	11.3%	≥ 12%	15.0%	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

° AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

In order to meet this Outcome we need to continue improving our performance on numerous environmental and social activities. Our two AMP6 PCs in this Outcome are shown in the table above and reported at the start of this section, below. We then explore through the rest of this section a range of other important activities related to this Outcome, including for example: our leadership in reducing our carbon footprint; our priority for health, safety and wellbeing; and, our work to improve diversity and inclusion. Please note that other related activities and PCs are included under our other Outcomes, such as water pollution and the affordability of water bills, for example.

### Environment

#### Turning waste into resource

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

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

Our flagship resource recovery programme is progressing well at Esholt wastewater treatment works in Bradford. Here we are embracing the principles of circular economies to help further eradicate waste and take more value from under-used resources. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused wastewater.

#### Managing our energy consumption and costs

We are a large consumer of electricity because it is energy intensive to move, manage and treat water and wastewater. We also use smaller amounts of gas and fuel oils in our operations. These forms of energy, especially electricity, are critical to the resilience of our operations and they are amongst our largest operating costs. We continually seek new ways to reduce the amount of energy we need and to keep these operating costs as low as we can. We also produce an increasingly substantial amount of renewable energy to supply our operations, and we purchase only certified

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

renewable electricity from the national grid. Our approach to energy supports our carbon footprint, cost efficiency and resilience.

Extreme weather events such as droughts, floods and warm summers can impact on our electricity use, and these events are becoming more likely because of climate change. In 2018/19, our electricity consumption was 620GWh. This was higher than normal because we carried out much more pumping of water through our water grid network to maintain customer supplies through a drought. In 2019/20 our consumption reduced to 602GWh as the drought ended, but still experienced a degree of impact due to the various floods in Yorkshire.

At the turn of the financial year into 2020/21 we have again experienced unusually dry weather. Therefore, to secure resilient water supplies we have been using higher than usual levels of energy as we increased levels of water pumping. We are monitoring this closely to optimise our approach throughout the year, as is standard business practice. We will update on the full year energy position in next year's report.

We have been investing in renewable energy for many years and continue to do so. Our latest anaerobic digestion (AD) plant came on line in 2019 at our Knostrop treatment works in Leeds. Our AD plants treat the region's sewage sludge to produce biogas which we use to generate green electricity. The new plant at Knostrop provides 55% of the site's electricity needs, equivalent to powering 7,600 homes. This facility along with our other renewables enabled us to generate 86.9 GWh in 2019/20 which met 14.6% of our total electricity needs. This result met our Performance Commitment to self-supply at least 12% of our own electricity needs.

We continue to grow our portfolio of renewables because this is a cost effective way of delivering many benefits for the business and society, including carbon reduction which we discuss in the next section. We are currently part way through a project to install a large AD plant at Huddersfield treatment works. Once complete, this will allow us to reach the milestone where virtually all our sewage sludge is used to produce green energy. We are also developing plans to install approximately 30mW of solar panels across a number of our sites.

We are investing in energy efficiency projects as well as renewables. For example, the replacement of old pumps with more energy-efficient new ones can reduce energy consumption, operational costs and carbon emissions. We expect the energy efficiency investments we made in 2019/20 to save approximately 1.7 gWh of energy and 700 tonnes CO<sub>2</sub>e of emissions each year.

Looking beyond electricity, we also use other fuels in our operations. The table below provides a breakdown of our main sources of energy, all in gWh to allow for comparison. We are escalating our focus on all these energy sources to help us further reduce our costs and carbon emissions. This focus is supported by the new Streamlined Energy and Carbon Reporting (SECR) Regulations which require that we annually publish this information. We explore the largest movements in the carbon section below.

Energy use at Yorkshire Water	2018/19	2019/20
<b>Fuel use, gWh</b>		
Electricity (Including all renewables generated by Yorkshire Water)	620	602
Diesel	77	82
Gas Oil	36	32
Kerosene	0.18	0.18
Natural Gas	11	9.3
Petrol	2	4
<b>Total</b>	<b>746</b>	<b>729</b>
<b>Intensity ratios</b>		
kWh per million litres of water served	645	588
kWh per million litres of wastewater treated	497	439

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our day to day services, such as the electricity we consume and fuel used in our vehicles. It is a priority that we lead by example in reducing our carbon emissions, and help others reduce theirs, because the public services we provide fundamentally rely on a stable climate.

Our ongoing retention of the Carbon Trust Standard provides independent verification of our long track record in reducing carbon emissions. In 2019/20 we have again reduced our emissions.

We have ambitious targets to go even further. In April 2019 we made a new and bold commitment to achieving net zero carbon emissions by 2030. We have also introduced a new operational carbon Performance Commitment in AMP7, to reduce our emissions by 12% by 2025 (or 2.4% annually).

We report both the 'location' and 'market' based methods of carbon accounting. We complete our carbon accounts using the standardised UK water industry tool which follows Government reporting guidelines and applies latest emission factors. The location based approach assumes all purchased electricity has the average emissions of the UK's national electricity grid supply. This approach supports the continued focus on energy efficiency because the most sustainable long term approach is to use less, no matter how the energy is generated. Since 2018/19 we also started reporting our carbon footprint using the market based approach which recognises the impact of our procurement choices. This approach captures the carbon reductions we achieve by purchasing only renewable energy.

Location based carbon account (Assumes all electricity has grid-average emissions)			
	2017/18	2018/19	2019/20
<b>Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO<sub>2</sub>e)</b>			
Scope 1 emissions KT CO <sub>2</sub> e	74	77	71
Scope 2 emissions KT CO <sub>2</sub> e	187	156	131
Scope 3 emissions KT CO <sub>2</sub> e	27	25	23
<b>Total gross emissions KT CO<sub>2</sub>e</b>	<b>288</b>	<b>258</b>	<b>227</b>
<b>Total net emissions KT CO<sub>2</sub>e</b>	<b>288</b>	<b>258</b>	<b>227</b>
<b>Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO<sub>2</sub>e)</b>			
Emissions per million litres of water served	225	206	173
Emissions per million litres of wastewater treated	235	219	136

Market based carbon account (Recognises the carbon saving of our renewable electricity)		
	2018/19	2019/20
<b>Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO<sub>2</sub>e)</b>		
Scope 1 emissions KT CO <sub>2</sub> e	77	71
Scope 2 emissions KT CO <sub>2</sub> e	0	0
Scope 3 emissions KT CO <sub>2</sub> e	11	12
<b>Total gross emissions KT CO<sub>2</sub>e</b>	<b>89</b>	<b>83</b>
<b>Total net emissions KT CO<sub>2</sub>e</b>	<b>89</b>	<b>83</b>

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

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

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

We have continued to achieve substantial falls in our operational emissions. They are down 81% from 448KT CO<sub>2</sub>e in 2004/05 when we first started reporting our carbon emissions. This is using the market based accounting approach which recognises the impact of our choices for renewable energy. They are down 49% if we use the location based approach which considers all our electricity as if it

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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had the carbon emissions of the average national electricity grid supply. This is leading performance, especially when recognising the general upward pressure on our energy use and carbon emissions from population growth, climate change and new legislative requirements for tighter standards in wastewater treatment.

A range of factors are influencing our carbon performance up and down. In 2019/20 notable headlines include the following:

- **Electricity** is a dominant factor in our emissions. We describe in the energy section above how we were able to reduce our energy use last year and how we continue to invest in renewable energy. In the market based account we show zero emissions in the Scope 2 category of our accounts because we continue to use and purchase only certified renewable energy. In the location based account we see the ongoing trend for reducing Scope 2 emissions because the national grid continues to de-carbonise through ongoing investment in renewables.
- **Gas oil** use reduced as part of our ongoing plans to treat more sewage sludge through our growing capacity for AD.
- **Diesel and our fleet:**
  - We increased the size of our fleet and the mileage we travelled in diesel vehicles. This was a consequence of our efforts to reduce leakage and sewer blockages which can cause pollution and flooding.
  - We increased the number of electric vehicles in our fleet to 23. Looking ahead, we are working to reduce emissions from diesel and travel by substantially growing our use of electric and other low-carbon vehicles in the coming years.
  - Within our accounts we have moved some travel-related emissions from the Scope 3 category into Scope 1 when previously outsourced activities were brought back in house to help reduce costs and improve performance. This represents an accounting change with no impact on overall emissions.
- **Process emissions** are those released from our operational treatment processes. These show a reduction in our carbon accounts because of a change to the national methodology for calculating the emissions. There has been no change to performance in real terms. Process emissions are hard to measure and have historically been an area of low confidence in water industry carbon accounting. This is starting to improve as we and the water sector collaborate to increase our focus on process emissions as an important part of achieving our commitment to net zero.

The response to Covid-19 in our business and in wider society is impacting our carbon emissions. During lockdown we closed many of our offices and reduced our travel. Our operations have also responded to changes in societal demand for our services when businesses have closed and customers have been at home. While the actions had negligible impact on our emissions in 2019/20 because of the timing, we are monitoring this closely through 2020/21 where we expect both positive and negative impacts on our carbon footprint. We are exploring if and how we can permanently lock in some of the changes which have delivered positive benefits, especially from more agile working. We will explore this further in next year's report.

We are currently updating our climate change strategy which we first published in 2013. As part of the update we are producing a detailed and costed plan to meet our commitment to net zero by 2030. This will include a holistic focus on all elements of our operational emissions. We will publish our new strategy later this year. Our emerging strategy can be found at:  
[www.yorkshirewater.com/climatechange](http://www.yorkshirewater.com/climatechange).

### **Looking beyond our operational greenhouse gas emissions**

Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. Over the last five years we have worked to

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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improve our reporting and design processes, we also set a 50% reduction target in this period and we have achieved a 44% reduction to date. For our next AMP7 period of investment we have made a performance commitment to reduce our embedded emissions by a further 23% against a baseline measured using a best practice framework known as PAS2080 (PAS stands for Publicly Available Specification). We are embedding PAS2080 in our business and processes. We will continue to drive innovation through partnerships with contractors to reduce our embedded emissions.

In 2019/20 we worked with an expert consultancy to assess, for the first time, the carbon footprint of our full value chain, including emissions from our suppliers and our customers use of water. This goes much further than the traditional focus on operational emissions, which we describe above. The insight from this project is helping shape our new climate change strategy and carbon reduction plans. We will publish the results of this analysis later in 2020.

### **Our environmental governance and policy**

Our environmental policy recognises that a resilient water and wastewater business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient and effective conduct of our business. Central to our environmental governance and risk management is our ISO 14001 certified Environmental Management System. We have been continually certified to the ISO 14001 standard since 2004. Environmental performance is reported through our website which is regularly updated. This can be viewed at: [www.yorkshirewater.com/about-us/what-we-do/](http://www.yorkshirewater.com/about-us/what-we-do/).

### **Communities**

#### **Supporting communities through education and volunteering**

We challenge ourselves to “make a difference” to the quality of people's lives over and above the provision of high quality water and wastewater services. Yorkshire Water's established community programmes provide support a wide variety of individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which we operate. Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. In preparation for our new performance commitment in AMP7 to deliver 20,000 learning hours each year, we have been increasing our education provision throughout 2019/20. We had 6,092 visitors during 2019/20 (2018/19: 7,507) despite being affected by the Covid-19 situation in the later part of the financial year. We delivered outreach programmes to 12,848 young people and adults (2018/19: 9,252).
- Our volunteering programme “Hands Up” comprises initiatives enabling employees to choose from a variety of opportunities, such as providing support to partner organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB, and supporting STEM awareness in schools.
- Our ‘Soak it Up’ campaign worked with communities and schools to encourage residents and pupils to think about how small actions can contribute towards a reduced risk of flooding. We partnered with Yorkshire Wildlife Trust to work with 12 schools from across the region to raise awareness and install small scale Sustainable Drainage Systems which could be replicated in the wider community.
- In October 2019 we completed our second ‘Industrial Cadets’ work experience programme which is accredited by the Engineering Development Trust. A total of 25 young people undertook a week-long course during their school holiday and learnt about the wide range of work undertaken by the business.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **Supporting WaterAid - Our long-standing charity partner**

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. Yorkshire Water has an ongoing partnership with WaterAid to help bring clean water, decent toilets and hygiene to communities in Ethiopia. Over the last five years, we have raised over £1m and supported around two million people in 20 towns, enabling communities to benefit from improved access to clean water. We're delighted to be playing our part in helping people take their first steps out of poverty in one of the world's poorest countries. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience. Since 2015 we have delivered 695 engagement events to over 43,850 young people to help raise awareness through education in schools and youth organisations. In 2019/20 we delivered 184 such events to 11,859 people.

### **Our people**

#### **Working ethically and respecting human rights**

Our Human Rights Policy recognises international human rights, as set out in the Bill of Human Rights and the principles described in the UN Global Compact. The policy can be found on our group website at: [www.yorkshirewater.com/attachments/human-rights-policy](http://www.yorkshirewater.com/attachments/human-rights-policy).

It is a fundamental policy of Yorkshire Water to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found on our group website at: [www.yorkshirewater.com/attachments/code-of-ethics](http://www.yorkshirewater.com/attachments/code-of-ethics) and includes our policies on anti-corruption and anti-bribery.

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

[www.keldagroup.com/corporate-governance/kelda-group-modern-slavery-act-statement](http://www.keldagroup.com/corporate-governance/kelda-group-modern-slavery-act-statement)

#### **Ensuring responsibility throughout our supply chain**

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

We acknowledge that our supply chains extend into emerging economies and developing countries where child and forced labour may be present. All new supply contracts and purchase order terms oblige our suppliers to comply with the Modern Slavery Act 2015, including the abolition of human rights abuse in all its forms. We are now confident that all suppliers trading under our terms will have this obligation in their agreement and will be working towards methods to further assure this throughout the contract lifecycle.

Our Sustainable Procurement Strategy sets out our objectives in full and is aligned to the wider Water Industry Public Interest Commitment:

[www.yorkshirewater.com/attachments/sustainable-procurement-strategy](http://www.yorkshirewater.com/attachments/sustainable-procurement-strategy)

[www.water.org.uk/publication/water-uk-public-interest-commitment-update](http://www.water.org.uk/publication/water-uk-public-interest-commitment-update)

### **Health, safety and wellbeing**

During 2019/20 we completed the implementation of our four year Health and Safety Plan, which is key in realising our Health and Safety Vision of: Everybody, Every Day, Safe and Well, and We Know It.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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the plan we have now implemented initiatives focussing on personal, process and infrastructure changes to ensure that the health, safety and wellbeing of colleagues and other stakeholders is maintained and not compromised by our activities.

In occupational safety, although we were off-target in meeting our stretching performance target for a lost time injury rate (LTIR) of 0.23 incidents per 100,000 working hours at 0.36%, although over the last five years (AMP6) we have reduced this rate by 46%. This represents a significant reduction in the number of colleagues injured and is due to the implementation of enhanced employee training, risk control processes and improvements in equipment and asset design. In process safety, we continued our focus on our higher hazard assets; and reduced the number of process safety events over last year. This has been as a result of increased rigour around implementing learnings from previous incidents through our Incident Review Board process.

In health and wellbeing our focus on mental health continued, and we have now trained over 1,600 colleagues as Mental Health First Aiders. They are equipped to recognise the early signs of mental health problems in colleagues, leading to early intervention and support from our in-house Occupational Health team. We believe this initiative has significantly contributed to a reduction in the number of colleagues that need to be referred for further professional support such as external counselling.

In terms of our systems and processes, our Health and Safety Management System achieved external accreditation to the ISO45001 International standard. This is an industry best practice benchmark for the company.

Our response to the Covid-19 pandemic started towards the end of the financial year, with our Incident and Crisis Management Teams overseeing the process. Business Continuity Plans were enacted across all business units and this resulted in many colleagues working from home, and key workers remaining operational to support essential services such as customer emergencies, continued supply of water and treatment of waste. At all times the health, safety and wellbeing of our colleagues and customers has been our highest priority. We have introduced a number of new initiatives to support colleagues such as the Employee Assistance 24 hr helpline manned by qualified counsellors being implemented to provide colleague support, a colleague interest free loan facility, and access to The Big White Wall mental health initiative.

Looking ahead to 2020/21 we will continue to focus on our key risks and challenges which will include the Covid-19 pandemic, reducing injuries from operational activities and continuing to embed our comprehensive mental health strategy. In addition, we will work very closely with our supply chain in order to share best practice and learn from each other in order to develop a common health and safety culture.

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

### **Attracting great people and maintaining the skills we need**

We recognise that our employee experience is key to attract, retain and engage top talent with the skills we need to make our workforce resilient, to ensure our success, both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with great working environments, fair wage and reward package.

In 2019/20 we have:

- Expanded our apprenticeship offering from 124 as of March 2019 to 151, with an intake of 27 internal and external apprentices in September/December 2019, maximising our usage of the Apprenticeship Levy and anticipating future needs based on our expected skills gaps and potential risk of lost knowledge due to retirement;
- In our graduate programme, we have continued to develop our nine graduates who completed their programme in August 2019, with nine new graduates recruited for a September 2019 start, and a further 18 planned for a September 2020 intake. Our 2020 graduate intake will be the

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

highest we have done and demonstrates the importance the wider business places of having graduates in their teams;

- Investing in Social Recruitment, utilising online (social media tools) to attract a wider and more diverse talent pool, allowing us to reach candidates more readily and enable talent to understand our company culture. This improves our candidate pools and expand our talent pipelines;
- Developed on-the-job assessments for operational colleagues, which are aligned to the technical competency framework allowing us to develop/retain/recruit a skilled workforce; and
- Developed operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role. This has meant we can integrate new employees into the company and make them understand the systems and procedures followed by the organisation. New employees settle down quickly in the new work environment and enables them to flourish in their role.

### Championing diversity

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

Gender	Male			Female					
	2020	2019	2018	2020	2019	2018			
Statutory directors	9 (81.8%)	8 (80.0%)	8 (66.7%)	2 (18.2%)	2 (20.0%)	4 (33.3%)			
Senior managers	22 (64.7%)	20 (69.0%)	18 (72.0%)	12 (35.3%)	9 (31.0%)	7 (28.0%)			
Total employees	2,677 (76.9%)	2,357 (76.9%)	2,086 (75.9%)	803 (23.1%)	710 (23.1%)	661 (24.1%)			
Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Statutory directors	11 (100.0%)	10 (100.0%)	12 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	23 (67.6%)	20 (69.0%)	23 (92.0%)	3 (8.8%)	3 (9.7%)	2 (8.0%)	8 (23.5%)	6 (20.7%)	0 (0.0%)
Total employees	2,517 (72.3%)	2,429 (79.2%)	2,211 (80.5%)	173 (5.0%)	150 (4.9%)	140 (5.1%)	790 (22.7%)	498 (15.9%)	396 (14.4%)

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

Age	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	2020	0 (0.0%)	0 (0.0%)	2 (18.2%)	3 (27.3%)	6 (54.5%)	0 (0.0%)
	2019	0 (0.0%)	0 (0.0%)	2 (20.0%)	4 (40.0%)	4 (40.0%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	2 (16.6%)	5 (41.7%)	5 (41.7%)	0 (0.0%)
Senior managers	2020	0 (0.0%)	2 (5.9%)	16 (47.1%)	12 (35.3%)	4 (11.8%)	0 (0.0%)
	2019	0 (0.0%)	0 (0.0%)	12 (41.4%)	14 (48.3%)	3 (10.3%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	10 (41.7%)	13 (54.2%)	2 (4.1%)	0 (0.0%)
Total employees	2020	259 (7.4%)	989 (28.5%)	818 (23.5%)	829 (23.8%)	551 (15.8%)	34 (1.0%)
	2019	274 (9.0%)	865 (28.0%)	690 (22.5%)	770 (25.1%)	456 (14.9%)	12 (0.4%)
	2018	195 (7.1%)	693 (25.3%)	679 (24.8%)	745 (27.0%)	419 (15.2%)	16 (0.6%)

In note 6 to these financial statements we disclose figures relating to a total of 3,312 employees who were employed based on monthly averages throughout the financial year. The above figures relate to employees as at 31 March 2020. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

Like many companies in the water sector, historically we have had a predominantly white male workforce. We will continue our focus on improving the diversity of our workforce. To achieve this we are taking a targeted, data led approach which will see policies and plans delivering results over the coming years, more detail on these below. Progress does take time, and we may see some years where our gap increases, before it continues to improve.

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

- We hold the National Equality Standard and have an action plan that is linked to the feedback from it, as well as the overall company strategy and objectives.
- We have published the annual Workforce Diversity report, capturing the ethnicities, gender and disability of our workforce. This shares the company's position with the rest of the business and areas that we need to work on. We have also published our ethnicity and gender pay gap reports. Next year we plan to report across all elements of diversity.
- We are members of a Business Disability Forum; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability.
- We are part of the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity.
- We have renewed membership of the Energy Utility Skills partnership and, together with other members, we have made an inclusion commitment which aims at highlighting the sector's commitment to diversity and inclusion.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and public sector. The Forum comes together to share best practice.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

- The company has a big role to play in addressing skills shortages, particularly when it comes to the Science, Technology, Engineering and Mathematics (STEM) subjects. The company proactively supports national Women in Engineering week by running a number of events with girls from local schools.
- We have continued to invest in female development leadership programmes to address the under-representation of females in leadership roles. There was a third cohort of 20 women on the leadership programme, which they completed in June 2019. The 2020 cohort has started with a further 20 colleagues, and we have successfully completed a Black, Asian and minority ethnic (BAME) leadership programme with another cohort starting in 2020. Members of the previous cohorts have been very successful within our business and have a strong support network in place.
- A director sponsored diversity and inclusion steering group continues to drive progress in this area; ensuring the policy is regularly reviewed, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, being gender, ability, LGBTQ and ethnicity, each of which has a prioritised area of focus. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and corporate social responsibility, supporting us to become a more diverse and inclusive employer and better reflect our customer base.
- We continue to partner with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. In 2018/19 at least three colleagues from Lighthouse joined Yorkshire Water on employment contracts after completing their internship. We have another four placements planned for 2020.
- We completed a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, undertake placements and study.
- We have been running a reverse mentoring programme in 2019/20 that has allowed colleagues from different backgrounds in the business and different levels to share experience and understand each other's lived experience and therefore support our commitment to inclusion.
- We are currently reviewing our internal recruiting process and planning to test out different ways to expand our inclusion as a company, including encouraging flexible working and job shares, for example.

All these activities should improve the attraction, recruitment, development and promotion across all areas of diversity in Yorkshire Water. We will proactively report the results of all these activities.

### **Gender pay gap**

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

### **Pay and bonus gap**

<b>Year</b>	<b>Mean Hourly</b>	<b>Median Hourly</b>	<b>Mean Bonus</b>	<b>Median Bonus</b>
<b>2019*</b>	1.5%	0.1%	13.6%	5.7%
<b>2018*</b>	4.7%	6.2%	-2.8%	0%

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Receiving bonus

Year	Females	Males
2019*	89.8%	88.3%
2018*	92.6%	91.1%

### Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2019*	21.5%	78.5%	23.3%	76.7%	22.8%	77.2%	22.4%	77.6%
2018*	19.0%	81.0%	23.6%	76.4%	22.1%	77.9%	28.9%	71.1%

\*Published figures are to 5 April for each year in line with Regulations.

The improvement in the pay gap figures above results from an increase in the representation of women in higher paid more senior positions, and a decrease in the percentage of women in the lowest paid quartile. Whilst this is welcome we will continue our focus on improving the diversity of our workforce, by taking a targeted, data led approach.

Further information about our gender pay gap and the action we are taking to address it can be found on our website at: [www.yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion](http://www.yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion).

### Ethnicity pay gap

Our Ethnicity pay gap data for 2019 is summarised below:

	Mean hourly pay		Median hourly pay	
	2019	2018	2019	2018
<b>Employees</b>	£17.78	£18.75	£16.65	£18.10
<b>White employees</b>	£17.75	£18.78	£16.72	£18.21
<b>BAME* employees</b>	£18.34	£18.22	£15.09	£17.10
<b>General pay gap</b>	-3.3%	3.0%	9.7%	6.1%

\*Black, Asian and minority ethnic

Relative to the total number of colleagues across the population covered by the 2019 data and, who disclose their ethnicity, there is a proportionately greater representation of BAME colleagues in our most senior pay band and our most junior pay band. Conversely, though, this pattern of representation is reversed for the pay bands in between which covers the majority of the professional and senior management population. As a result of this, there is a difference between the mean and median pay gap figures for 2019. This change in representation, particularly in the most senior pay band also helps to explain the change, for example, in the mean pay gap figure for from 2018 to 2019.

As with the gender pay gap numbers, we will continue our focus on improving the diversity of our workforce, by taking a targeted, data led approach.

Further information about our ethnicity pay gap will be published on our website later this year through our Workplace Diversity Report..

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Customer Outcome: We keep your bills as low as possible

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
<b>Our Performance Commitments to customers and regulators*</b>				
<b>Number of people we help pay their bill</b>	31,606	Publish figures annually	35,939	As detailed in Our Business Strategy section on page 2, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25. °
<b>Cost of bad debt to customers</b> Percentage of the average customer's bill	3.02%	≤ 3.16%	3.06%	
<b>Value for money</b> Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	77% water 79% wastewater	Average 2015-20 performance to be better than average 2010-15 performance	79% water 80% wastewater	

\* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports).

° AMP7 Performance Commitments are detailed at: <https://www.yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix/>

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

### Ensuring affordable water services and managing customer debt

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

In response to Covid-19, we have taken a number of measures to ensure that customers who are in debt are supported throughout this time. Since the middle of March 2020 we have suspended all debt recovery action for customers financially impacted by Covid-19 providing time for them to understand the impact for them. In place of our letter communication to these customers we have implemented new correspondence which provides additional information about the suite of financial support options Yorkshire Water has in place. These include, but are not limited to:

- payment matching schemes to help customers out of debt;
- social tariffs which cap customers' bills at a reduced amount; and
- a charitable trust which provides debt write-offs for customers with multiple debts.

In addition to these ongoing measures, we have also introduced payment holidays for customers impacted by Covid-19 which allow customers up to three months without making payments on their account. This provides the breathing space which may be required during a time of financial uncertainty for many of our customers who are struggling to pay their bill.

The price of our bills has always been, and remains, a top priority for our customers. Our average household bill is below the national average at £392 in 2019/20.

Our affordability strategy is a simple one, we:

- Keep bills affordable for customers and free them from worry.
- Innovate to deliver services efficiently.
- Deepen our understanding of customers' needs, allowing us to anticipate them.
- Prevent customers from falling into debt by knowing their individual circumstances.

# ***Kelda Finance (No.1) Limited***

## ***Strategic Report***

*for the year ended 31 March 2020*

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- Deliver prompt and meaningful support when it is needed.
- Where debt occurs, help get customers back on their feet as quickly as we can.

We offer financial help through a broad range of support schemes. We have further increased the number of customers we help through our support packages, up from nearly 32,000 customers in 2018/19 to 35,939 in 2019/20. By 2025 we aim to increase this number to 83,000. To support this ambition we will provide £14.5m funded directly from the company through our Community Trust and WaterSupport social tariff.

Non-recovery of customer debt threatens profitability in the short term and may increase bills for paying customers in the medium to long term. The Ofwat Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our PCs is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill. In the year we have maintained our leading approach to debt management, this cost being 3.06% of the average bill in 2019/20. This calculation is stipulated by Ofwat and therefore does not include the accounting adjustment made to the bad debt charge explained in note 2 to the financial statements.

Each year, the CCW survey water customers about perceived value for money. Latest results show that 79% of customers agreed our water service was “value for money”, and 80% for our wastewater service. We are pleased to have achieved our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and wastewater services. As last year, our scores are above the industry average.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **Section 172(1) statement**

In 2018 the Companies (Miscellaneous Reporting) Regulations introduced a requirement for large companies to publish a statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Section 172(1)(a) to (f) requires each director to act in the way he or she considers would be most likely to promote the success of the company for the benefit of its members as a whole, with regard to the long term and various other stakeholders. In all its decision making, the board seeks to consider the broader impact on its stakeholders and this is demonstrated through our six capitals approach to decision-making which considers the impact of any decision on our financial, human, manufactured, intellectual, natural and social capitals, both now and into the future.

In addition, towards the end of the year we have undertaken a review within the largest group subsidiary, Yorkshire Water Services Limited (Yorkshire Water/YWS), as to where each of the six capitals should be considered, be it at a board level by the whole board, or by one of the Yorkshire Water board committees. This work is continuing into 2020/21 and we will report next year on any changes to the terms of reference of our Yorkshire Water committees as a result. More information on our Six Capitals approach can be found on page 6.

As noted in our strategic report, the principal activities of the group relate to YWS with the remainder of the group consisting of six financing companies supporting YWS. This statement therefore focusses on YWS activities.

We have also set out below more detail in relation to each part of section 172(1)(a) to (f):

#### **(a) The likely consequences of any decision in the long term**

As a water company, Yorkshire Water is required by the government to produce a WRMP which shows how we plan to maintain a secure supply of water to all of our customers over the next 25 years. This requires us to consider the long term in all of our strategic decisions at board level. We publish regular reports on our 25 year plan, including the latest report entitled #notjustwater, which was published in August 2018 and can be found on the Yorkshire Water website at: <https://www.yorkshirewater.com/biggoals>.

Work on the next version of the report is planned for 2020/21 and this is built into the board forward agenda for regular consideration by the board during its development.

We also have prepared a long term viability statement for our main business, Yorkshire Water, which can be found in the YWS Annual Report and Financial Statements at: [www.yorkshirewater.com/reports](http://www.yorkshirewater.com/reports). This sets out the specific factors that the YWS board has considered in relation to the viability of the company over the next ten years. This year our review takes into account the increased uncertainty relating to our CMA challenge and the Covid-19 pandemic.

During the year there has also been much consideration by the YWS board of the Draft Determination and FD from Ofwat in relation to the Price Review. This consideration has involved significant focus on the long term and how the determinations by Ofwat would impact upon the business and the community we serve not just within the five-year term of the Price Review but beyond.

The YWS board has also had many discussions during the year in relation to the longer-term people, customer experience and technology strategies of the business, as detailed in the Corporate Governance section on page 64. There has also been significant focus at the YWS social value committee on the land strategy of the business, as a significant landowner in Yorkshire, which again stretches well beyond the immediate future.

In September 2019 the YWS board also spent two days visiting Hull and seeing first-hand the work being done through the award-winning 'Living with Water' scheme, which is focused on the long-term flood resilience of the Hull and Haltemprice region.

# ***Kelda Finance (No.1) Limited***

## ***Strategic Report***

*for the year ended 31 March 2020*

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### **(b) The interests of the company's employees**

The board considers our people to be our greatest asset, and the interests of our employees are always taken into consideration in the decisions that are made. Each year we conduct employee surveys to obtain the views of our employees and the results of these, and the proposed actions to be taken as a consequence, are reported back to the YWS board. Further information on this can be found on page 11.

Towards the end of the year the YWS board received regular updates on the handling of the impact of Covid-19 on employees, receiving frequent updates on the actions being taken to protect and support our colleagues through an extremely challenging time.

The board has also received regular updates on the people strategy during the year and provided feedback.

Also during the year we set up our Yorkshire Water Colleague Engagement Forum, which met six times during the year. The forum is made-up of elected representatives from all areas of the Yorkshire Water business and is attended by Julia Unwin and Nevil Muncaster from the YWS board to enable them to hear the feedback from the forum first-hand. In addition, the minutes from the forum are circulated to the YWS board and there is a standing agenda item at each YWS board meeting to consider the feedback from the forum.

The forum members input to the agenda of the meeting and agenda items are discussed in advance to enable the forum members to actively gather views from their business area to feedback to the meeting. The meetings during the year have covered topics such as the development of the new vision and values, feedback on the implementation of the SAP system, the potential impact of a no-deal Brexit, consideration of social mobility, updates on the Price Review, feedback on culture, the development of the technology strategy, people strategy and customer experience strategy.

### **(c) The need to foster the company's business relationships with suppliers, customers and others**

We have a Procurement and Contract Management team within YWS who work closely with our suppliers across the business. We seek to work in partnership with suppliers, where appropriate, and physically work alongside a number of our partners at our various sites across Yorkshire. We seek to treat our suppliers fairly through compliance with the Utilities Contracts Regulations, the Official Journal of the European Union and the Utilities Vendor Database operated by Achilles Information Limited. We work with our partners to help drive change in our organisation through innovation, promoting new ideas and ways of working and to ensure that they reflect the same behaviours that we expect from our own people. The YWS board has oversight of the procurement and contract management processes in place and receives regular updates on any matters of significance, as well as approving the awarding of large contracts.

The YWS safety, health and environment (SHE) committee invited a key partner to attend a committee meeting during the year, to hear first-hand how Yorkshire Water could work more effectively in partnership from a health and safety perspective. There is more information on this in our SHE committee report on page 101 of the YWS financial statements.

The YWS board also received presentations on the partnership approach adopted by the business and will continue to receive regular updates on this in the future.

We continue to be very focused on our customers and YWS has seven specific Customer Outcomes which it is measured against. Further information on these is on page 3, and our performance this year is discussed in the Strategic report on pages 9 to 38. The directors receive information on these on a monthly basis and closely monitor progress and performance in these areas.

A new customer experience strategy has been developed during the year and the YWS board received updates on this throughout the year, as well as presentations on the impact of flooding and the potential impact of a no-deal Brexit on our customers.

As well as customers and suppliers, we seek to build strong relationships with other key stakeholders in the areas in which we operate, such as local authorities, environmental groups and community groups. Our directors take an active interest in these connections and participate where possible in building such relationships and leading the liaison between Yorkshire Water and other organisations.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **(d) The impact of the company's operations on the community and environment**

We have a significant impact on the communities we serve and the environment around us. The YWS board receives regular updates on both, through both the YWS social value committee and at the main board meetings.

During the year this has included the YWS board visit to Hull to find out more about the 'Living with Water' scheme, detailed discussions on the role of Yorkshire Water as an anchor institution, regular updates on the social purpose of the organisation, a detailed review of the carbon commitments made by the business and the progress against these, regular updates on a natural capital dashboard developed by the business, the impact of operational plans for water and wastewater on the environment and consideration of the land strategy of the business.

During the year Yorkshire Water founded a Land Anchor Network in Yorkshire with fellow key landowners from the region. A number of board members supported the launch event and have continued to provide support to this.

Towards the end of the year, as part of the considerations of the impact of Covid-19, the board emphasised the importance of helping the community served by the business and received regular updates on the steps being taken to help the community as and when needed.

Further information on the work done in this area is in our Strategic report on pages 2 to 63.

### **(e) The desirability of the company maintaining a reputation for high standards of business conduct**

We believe it is vital that we are trusted by our stakeholders and therefore we seek to maintain high standards in all that we do as a business. We aim to always do the right thing in our interactions with others and YWS is on course to become an Open Data company later in 2020, which will continue to provide transparent and accurate data to our stakeholders on a range of matters that are important to them.

We report openly on our performance in relation to our various Customer Outcomes and our YWS company monitoring framework is subject to annual assessment by Ofwat.

Our YWS audit committee receives regular reports from internal audit which cover business conduct across many areas of the business and this provides assurance to the YWS board in relation to the way in which the company is conducting itself. We also work with a range of independent external organisations, who provide assurance around our controls, assumptions and calculations in different parts of the business. These organisations also report back to the boards and audit committees as appropriate.

We have a Code of Ethics which applies across the business and is regularly reviewed by the YWS board. This covers conflicts of interest, our anti-bribery policy, our whistleblowing policy, our expectations of conduct in the workplace and in relation to confidentiality. All of our people are expected to read and understand our Code of Ethics and e-learning is provided in key areas to all of our people where appropriate. We have also undertaken an internal audit of our approach to gifts and hospitality during the year to ensure that we are complying with our zero-tolerance approach to bribery and behaving in line with our Code of Ethics. The results of this audit have been shared with the audit committee and we are now seeking to implement the recommendations to make some changes to our policy in this area to clarify our approach and give additional guidance to our colleagues in specific situations.

The board has a low risk appetite for reputational risk and the reputational impact of decisions made by the directors is always considered.

We have developed a reputation dashboard during the year which is reviewed at every social value committee meeting and covers stakeholder sentiment and customer perception amongst other measures.

### **(f) The need to act fairly between members of the company**

The group parent company, Kelda Holdings Limited, has four shareholders and all are represented on the board of Kelda Holdings Limited. In addition, the three largest shareholders are represented on the YWS board, with the fourth shareholder entitled to appoint an observer to attend the board meetings. In this way, we ensure that we treat all of our shareholders fairly and that their views are

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

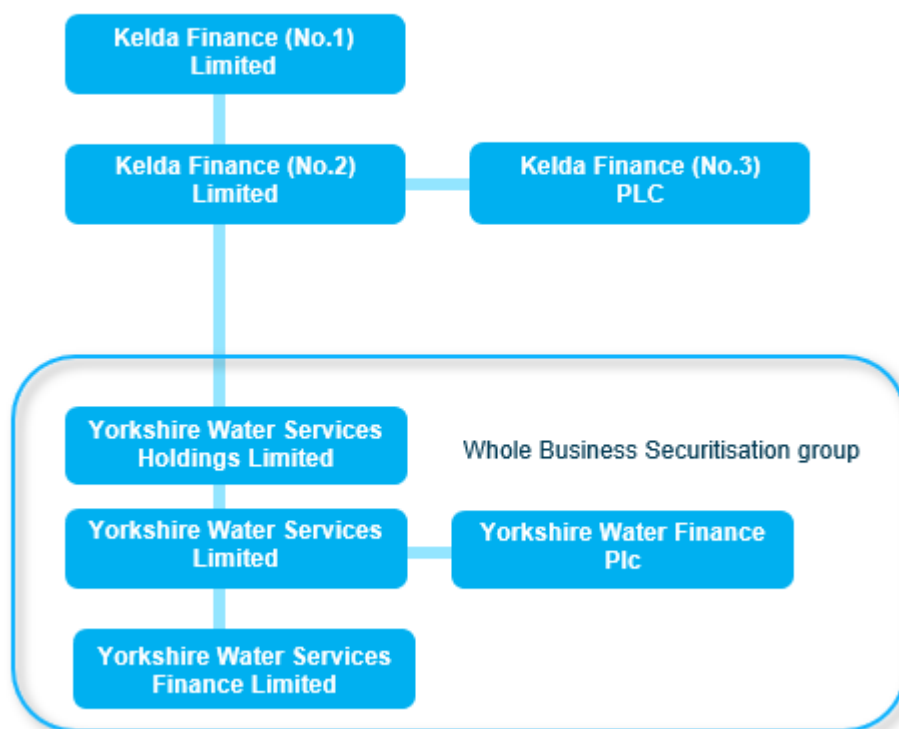
*for the year ended 31 March 2020*

fairly represented in key decisions. This is further ensured by a Shareholder Agreement, which was signed in 2010 and which sets out the rights of each of the shareholders in relation to the company and the matters which require specific investor consent. Further information on how our board operates can be found on page 64.

### **Our corporate structure**

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

#### **Kelda Finance (No.1) Limited Group corporate structure at 31 March 2020**



### **Summary of group company activities**

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

**Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC** – these companies were incorporated to issue debt and raise loan financing facilities outside of the Whole Business Securitisation (WBS) Group, described below. They are all incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.

**Yorkshire Water Services Holdings Limited** – incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company is the immediate holding company of Yorkshire Water Services Limited.

**Yorkshire Water Services Limited** - incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in Kelda Group, providing water and wastewater services to the Yorkshire region. This is the company to which this Annual Report and Financial Statements publication refers.

# ***Kelda Finance (No.1) Limited***

## ***Strategic Report***

*for the year ended 31 March 2020*

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**Yorkshire Water Finance Plc, Yorkshire Water Services Finance Limited** – companies within the Whole Business Securitisation described below.

### **Whole Business Securitisation**

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

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

Yorkshire Water Finance Plc is the principal financing vehicle for the WBS group. Yorkshire Water Services Finance Limited remains part of the WBS as a legacy finance company for debt issued prior to the introduction of the WBS. Both are incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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### **Delivering and governing our investment programmes**

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

Capital additions for 2019/20 were £485.2m (2018/19: £500.2m) (see note 11 to the financial statements). Our programme of investment to drive Upper Quartile performance in Leakage, Supply Interruptions, Water Quality and Pollution has continued, and this year expenditure was £106.7m across numerous projects. Other key areas of investment in 2019/20 included our continuing SAP project, work to install a new anaerobic digestion facility at our treatment works in Huddersfield, and inlet improvements and the refurbishment of our sludge treatment facility at our wastewater treatment works in Hull.

### **Managing and governing our borrowing requirements**

Our treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central Corporate Finance Team on behalf of Yorkshire Water and other companies in the Kelda Finance (No.1) Group.

Our operations are financed through a combination of fixed capital, retained profits, long term bonds, loan notes and private placement notes, finance leases and bank facilities. Any new funding is raised by the Treasury team in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (see page 43), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis.

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

During the year, we:

- Raised £750m of debt in Yorkshire Water in the form of public bonds with tenors ranging between seven and twenty two years;
- Renewed liquidity facilities in March 2020 in Yorkshire Water, with seven banks, which Yorkshire Water is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £274m to £260m;
- Raised £123m of debt in Kelda Finance (No.2) Limited ("KF2") in the form of floating rate loans with tenors ranging between five and nine years; and
- Raised £80m of bridging debt in KF2 in the form a floating rate bank loan with a tenor of 18 months.

Total borrowings of the group, were £5,974.6m as at 31 March 2020 (2019: £5,551.6m). The increase during the financial year was largely as a result of £400 million of debt raised by Yorkshire Water in November 2019 to provide funding for 2020/21 expected financing requirements, largely held in cash and short term investments, as well as cash outflows relating to additional investment to deliver our AMP7 forecast and costs incurred due to severe weather incidents. Net debt (total borrowings and net of cash in hand and at the bank) was £5,685.1m at 31 March 2020 (2019: £5,500.1m). The maturity profile of our borrowings and further detail on net debt are set out in note 19 of the financial statements.

To date, £850m of debt financing has been raised in accordance with our Sustainable Finance Framework (SFF), which aligns the Company's financing with its long term strategy and values (page 4). In April 2019, Yorkshire Water issued a £350m, 22 year bond off the Framework, which was the first sterling sustainability bond from a UK issuer that was listed on the London Stock Exchange. Going forward, the majority of Yorkshire Water's debt will be issued off the SFF, with reporting aligned to our innovative Six Capitals approach giving stakeholders an insight into the impacts of the company and its investments.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

As at 31 March 2020, Yorkshire Water's Regulatory Capital Value (RCV), which is one of the critical components for setting customers' bills, was £6,950.5m (2019: £6,686.6m).

Senior net indebtedness to RCV (Senior RAR) is a key covenanted gearing ratio within Yorkshire Water's financing arrangements and gearing levels are monitored and forecasted on a regular basis. On a covenanted basis at 31 March 2020 Yorkshire Water Financing Group's Senior RAR was 77.8% (2019: 76.6%). The movement in Senior RAR during 2019/20 primarily reflects capital investment.

Group net indebtedness to RCV (Group RAR) is a key covenanted gearing ratio within KF2's loan documents and gearing levels are monitored and forecasted on a regular basis. On a covenanted basis at 31 March 2020 Yorkshire Water Financing Group's Senior RAR was 77.8% (2019: 76.6%). The movement in Senior RAR during 2019/20 primarily reflects capital investment.

### **Managing financial risk**

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

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

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

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

Until 31 March 2020, Yorkshire Water's revenues were closely linked to the underlying rate of inflation measured by the retail price index ("RPI") and fluctuated in line with changes in RPI. From 1 April 2020, a portion of Yorkshire Water's revenues will be linked to the rate of inflation measured by the consumer price index including owner-occupiers' housing costs ("CPIH") and will therefore be subject to fluctuations in line with changes in both RPI and CPIH. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, however, this risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

Interest received is based on the six-month London Interbank Offered Rate (LIBOR) and interest is paid at fixed amounts plus RPI. Movements in RPI are also applied to the nominal value of inflation linked debt and swaps to determine additional amounts to be paid either at maturity or during the life of some inflation linked swaps. Therefore, the impact of RPI reductions on income and RCV is mitigated by reduced interest charges and lower value of inflation linked debt used in calculating gearing as a percentage of RCV.

The inflation profile of Yorkshire Water's debt and swap portfolio will be reviewed following the conclusion of HM Treasury's consultation on reform to RPI methodology and changes that would be expected to be made between 2025 and 2030.

The maturity dates of Yorkshire Water's portfolio of inflation linked swaps ranges from 2026 to 2063.

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

With expectations of LIBOR continuing at low levels, the inflation linked swaps held by the group gave rise to a negative fair value at 31 March 2020 of £2,099.6m (2019: £2,067.5m). See note 19 to the financial statements for more details on the financial derivatives held by the group. We have an internal working group setup already and are looking to transition from LIBOR before the January 2022 cut-off.

Another financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. As at 31 March 2020, Yorkshire Water has fixed over 40% of its wholesale energy costs for AMP7, including 93% for the 2020/21 year, through a combination of forward contracts and energy swap transactions.

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

### *Credit ratings*

Yorkshire Water Services Limited and its financing subsidiaries have credit ratings assigned by three rating agencies. These provide an external view on credit-worthiness for our debt investors. The latest published ratings are as follows:

<b>Credit rating Agency</b>	<b>Class A rating</b>	<b>Class B rating</b>	<b>Corporate Family Rating</b>	<b>Date of publication (latest available)</b>
Fitch	A- (stable)	BBB (stable)	N/A	June 2020
Moody's	Baa2 (negative)	Ba1 (negative)	Baa2 (negative)	March 2020
S&P	A- (negative)	BBB (negative)	N/A	February 2020

All three agencies have assessed the impact of Ofwat's FD as follows:

On 20 December 2019, Moody's put Yorkshire Water's ratings on review for downgrade. This review was completed on 13 March 2020 when Moody's changed its outlook back to negative and downgraded the Class A rating by one notch to Baa2. There were no changes to the Corporate Family and Class B ratings.

On 25 February 2020, S&P published an update following its review of the impact of Ofwat's FD on a number of companies in the water sector. Yorkshire Water's ratings were affirmed but the outlook was moved from stable to negative.

On 12 June 2020, Fitch published a ratings report on Yorkshire Water following its review of the impact of Ofwat's FD. The Class A rating was downgraded to A- from A and the Class B rating was downgraded to BBB from BBB+. The outlooks for both Class A and Class B ratings were changed back from negative to stable.

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

### **Corporation and other taxes**

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

- Comply with both the letter of UK tax law and its application as it was intended;
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law;

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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- Do not enter into transactions that have a main purpose of gaining a tax advantage; and
- Make timely and accurate tax returns that reflect our fiscal obligations to the Government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. All active companies in the Kelda Finance (No.1) Limited Group are wholly and exclusively resident for tax purposes in the UK.

We explain our corporate structure on page 42.

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

The Kelda Group tax strategy provides further detail on the group's approach to tax risk management and governance arrangements and is available on our website at: [www.keldagroup.com/corporate-governance/kelda-group-policies](http://www.keldagroup.com/corporate-governance/kelda-group-policies).

### **Corporation tax**

The accounting tax charge included in these statements of £31.9m (2019: credit of £25.9m) is mainly due to the non-cash movement in the group's deferred tax provision.

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

The 2019/20 and 2018/19 movements in deferred tax are due to the effects of:

- Differences between the accounting and tax carrying value of capital assets. These differences arise as the assets are depreciated for accounts purposes at a different rate compared to in the company tax returns of group companies;
- Changes in the fair value liability of Yorkshire Water's inflation linked swap portfolio. Increases or reductions in the fair value liability of the inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid. Whilst the fair value of the inflation linked swap portfolio has a carrying value in the group accounts, there is no associated tax base as changes in the fair value are not tax deductible. The fair value of the inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision; and
- Changes in enacted future tax rates that affect the expected future tax payable when temporary differences are expected to reverse. The cancellation of the anticipated reduction in the Corporation Tax rate to 17%, such that it will remain at 19%, has increased the group's deferred tax liability that it must provide for.

A full reconciliation of the group tax charge for the year is contained in note 8 to the financial statements.

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

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Our financial performance

	2019/20 performance	2018/19 performance
<b>Revenue</b> Income receivable for services provided	£1,062.5m	£1,062.6m
<b>Operating profit/(loss)</b> Revenue less operating expenses	£212.2m	£230.6m
<b>Adjusted EBITDA</b> Earnings before interest, tax, depreciation, amortisation, and exceptional items <i>- Reconciled to Operating Profit on page 49</i>	£554.9m	£570.8m
<b>Net assets</b>	£432.2m	£691.1m
<b>Net debt<sup>#1</sup></b> Borrowings less cash	£5,685.1m	£5,500.1m

<sup>#1</sup> Net debt shown above is as reported in the financial statements, which includes accounting adjustments such as fair valuation and discounted cashflow - please see note 19 of the financial statements for more details.

Below we explain the highlights of our financial performance:

- Revenue for the year was £1,062.5m (2018/19: £1,062.6m). The inflationary annual price increase was offset by a shortfall in billed income for both household and non-household due to tariff assumptions, such as consumption and new customer connections, at the time the billing was calculated for 2019/20. Ofwat allows us to collect this difference over the next few years through adjustments to future tariffs.
- Operating costs continue to be tightly managed. Total costs (excluding exceptional items) of £845.2m (2018/19: £797.6m) were in line with plan, except for £5.7m additional bad debt provision which has been included at March 2020 to reflect the impact of Covid-19 and the resulting lockdown on the wider economy.
- Net exceptional costs of £8.1m (2018/19: £34.4m) are largely associated with extreme weather events relating to climate change (£8.0m). In preparation for AMP7 we have reviewed activities and structures of the support functions resulting in £2.4m severance costs. Subsequent to our decision to challenge the AMP7 FD (page 5) we have incurred £1.1m legal and advisory related costs at 31 March 2020. We have classified these as exceptional as we expect the ongoing CMA costs to be material in 2020/21. Offsetting this we have recognised an exceptional profit on the sale of our non-household retail business (£3.5m).
- The above movements result in a decrease in adjusted EBITDA to £554.9m (2019: £570.8m). Including exceptional items and Covid related costs, EBITDA totals £540.4m (2019: £536.4m). A reconciliation between this and the statutory measure can be found below.
- The net finance costs have decreased to £203.0m (2018/19: £402.3m). This was a result of large adverse fair value movements in 2018/19 (see note 7 to the financial statements). Fair value adjustments total a net £40.2m expense in 2019/20 (2019: £250.0m net expense (restated)). Please see the "Managing Financial Risk" section above for more detail.
- We are therefore reporting a loss for the financial year for 2019/20 of £22.7m (2019: £145.8m loss). This represents an underlying profit for the financial year of £16.0m (2018/19: £90.8m profit (restated)). A reconciliation between this and the statutory measure can be found overleaf.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

- We have revalued infrastructure assets as at 31 March 2020 based on the value in use. This revaluation reduced the asset value by £178.5m (2018/19: £43.9m increase) which has been reflected in the revaluation reserve as it reverses previously recorded upward revaluations. Please refer to note 11 to the financial statements for more detail.

*Adjusted EBITDA is calculated as follows:*

	2020 £m	2019 £m
Group operating profit before share of associates and joint ventures	212.2	230.6
Add back depreciation and impairment (note 11)	313.1	294.7
Add back amortisation of intangible assets (note 10)	15.1	11.1
EBITDA including exceptional items	540.4	536.4
Add back exceptional items (note 5)	8.1	34.4
Add back Covid-19 related costs	6.4	-
<b>Adjusted EBITDA</b>	<b>554.9</b>	<b>570.8</b>

*Underlying loss is calculated as follows:*

	2020 £m	Restated <sup>1</sup> 2019 £m
Profit/(Loss) on ordinary activities before taxation (continuing)	9.2	(171.6)
Add back exceptional items (note 5)	8.1	34.4
Add back/(deduct) fair value movements (note 19)	40.2	250.0
	57.5	112.8
Effects of taxation	(41.5)	(22.0)
<b>Underlying loss</b>	<b>16.0</b>	<b>90.8</b>

<sup>1</sup> Please see note 2 for details

The underlying results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and such, will no longer be designated as exceptional, however, should be excluded from underlying profit due to their magnitude. Further information on the derivative fair value movements can be found in note 19.

### Impact of Covid-19 on 2019/20 financials

Whilst the UK lockdown occurred towards the end of the 2019/20 financial year and a greater impact of the Covid-19 pandemic is expected in the 2020/21 financial year, we have considered the impact of the Covid-19 pandemic on the following material areas of our 2019/20 financial results:

- Bad debt provision:** we have provided £6.4m for costs relating to the Covid-19 pandemic and resulting economic impacts, the majority of which (£5.7m) relates to an increased bad debt provision for affected customers. We are closely monitoring the situation and have put additional measures in place to support these customers as detailed on page 37.
- Revenue recognition from household customers where payment is not considered probable** (note 2): due to the anticipated increased bad debt impact, further consideration has been given to whether this would warrant a corresponding increase in the adjustment for revenue recognition. Due to the timing of the Covid-19 pandemic there have not been any changes made to the methodology as it is expected that the impact will largely affect 2020/21.
- Infrastructure asset valuation** (note 11): additional in depth review has been completed by our Corporate Finance team and our independent valuation team to consider the impact of Covid-19 on the value of the group as a whole, and as a result on the value of our

# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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infrastructure assets (see note 2 for more detail on our valuation policy), in addition to the uncertainty considered relating to our CMA challenge. The resulting valuation taking into account this and other market factors was an impairment to our infrastructure assets of £178.5m, which has been adjusted in the revaluation reserve.

- *Financial Instruments valuation* (note 19): Covid-19 has had a significant impact on market conditions which have been factored in to the year end valuations, however, whilst the receipt LIBOR linked interest has dropped, this has been offset by a drop in expected RPI linked interest paid therefore bringing the year end valuation largely back in line with 31 March 2019.
- *Land and Property valuation* (note 11): Increased judgement has been taken in this assessment as at the year ended 31 March 2020 due to the uncertainty in the market as a result of Covid-19 and assumptions over the long term impact this will have on YW's property portfolio. A more detailed review was undertaken to confirm the valuation of our land and property assets at 31 March 2020, which included both expert internal and independent advice.

In addition Covid-19 and scenarios modelling possible impacts moving into the next financial year have been included in our going concern assessment (page 67). More detail of this process is given in the relevant section.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

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### Identifying and managing our risks

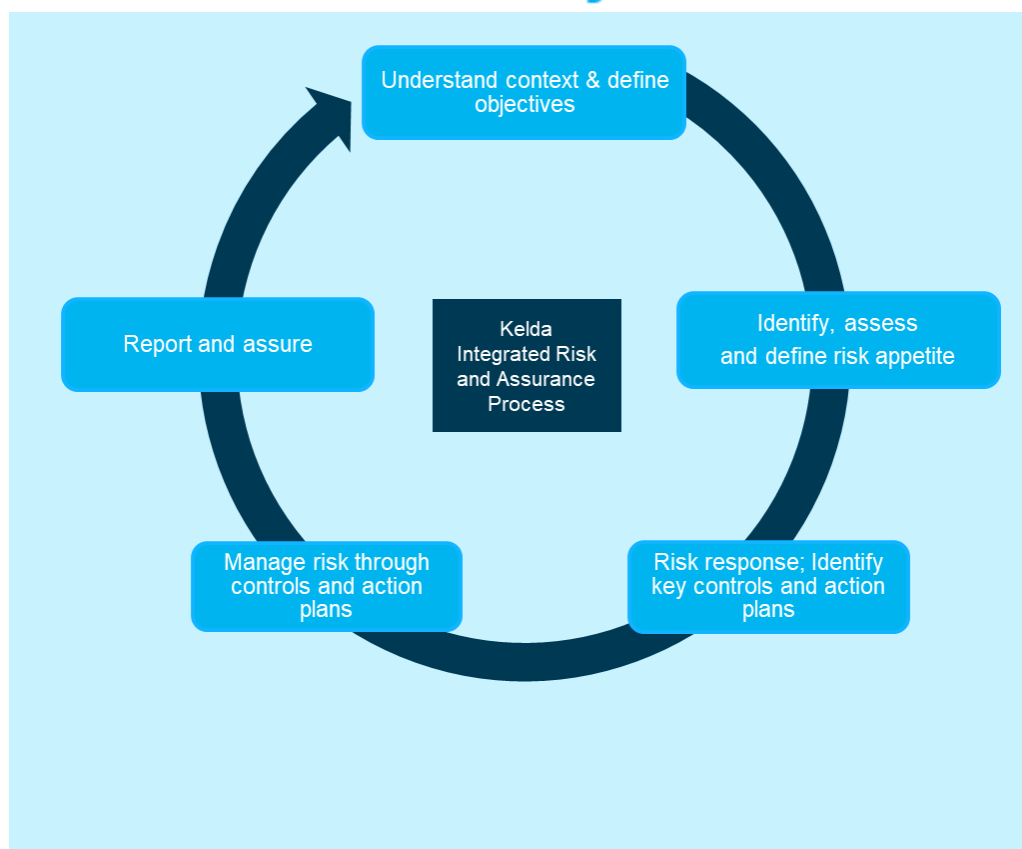
We provide a critical service to the 5.4 million people who live in Yorkshire, the millions of people who visit each year as well as 140,000 businesses. Effective risk management is central to ensuring we meet customer expectations all day, every day, whilst keeping our colleagues safe and well. Our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

### Our approach to risk management

Our operating environment is often subject to significant shocks and stresses, illustrated clearly through the current Covid-19 global pandemic and the impact of longer term climate change. Our risk management processes ensure we are able to respond and continue to deliver the best possible customer experience whilst achieving our strategic goals now and long into the future.

Our risk management approach remains consistent with ISO31000:2018 and applies to all activities, decisions and processes and is assured annually by the British Standards Institute (BSI) as a core part of our company Integrated Management System (IMS).

## Risk and Assurance Cycle



# Kelda Finance (No.1) Limited

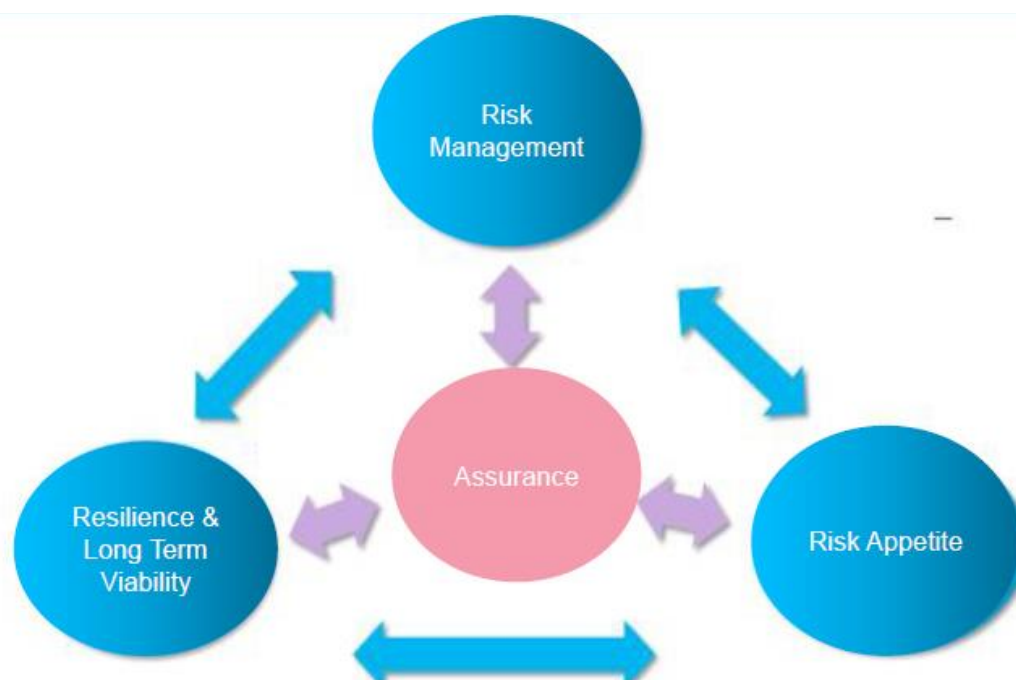
## Strategic Report

for the year ended 31 March 2020

### Risk and assurance process

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

We balance the cost of control with the risk appetite and long term resilience, including the viability of the business.



### Corporate risk appetite statement

A clearly defined risk appetite framework is aligned to our purpose, ambition and approach. During 2019/20 the board set a cautious approach to risk taking. This means we tolerate a low residual risk which is well mapped. The integrated risk and assurance across the business confirms that we have a reasonable control environment with a range of preventative, detective and corrective controls.

As we deliver our AMP7 commitments, achieving innovative solutions whilst working efficiently, we are prepared to be more open to financial or service risk for short periods, always with strong assurance in place.

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

### Our risk appetite by risk impact category

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

### Our principal risks at March 2020

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite, some of which are beyond our control. Although the year end position appears stable, with 12 principal risks, strong risk management has enabled the business to successfully respond to significant volatility in shocks and stresses in the operating environment.

We responded proactively to the Covid-19 pandemic; protecting customers by prioritising services, supporting office-based colleagues to work from home ahead of lockdown and introducing safe working procedures to protect front-line colleagues. We rapidly created a clear line of site to the national incident management and continue to collaborate with government, Water UK, regulators and local resilience forums. The Company Resilience and Planning group works alongside our Crisis Management teams to enable longer term risk management and scenario planning for the new reality.

The business has also remained resilient through:

- Multiple extreme weather events across Yorkshire, particularly significant flooding in Calderdale and East and South Yorkshire.
- A volatile political environment in terms of a general election, regulatory change and the continued uncertainty regarding EU exit

Details of the principal risks at 31 March 2020 are on pages 56 to 62, including the controls and assurance plans. comprehensive action plans are in place to manage all five red risks, with oversight and review provided by our risk and resilience committee to assure delivery to appetite.

This table shows the level of risk after mitigating controls have been applied at 31 March 2020.

# Kelda Finance (No.1) Limited

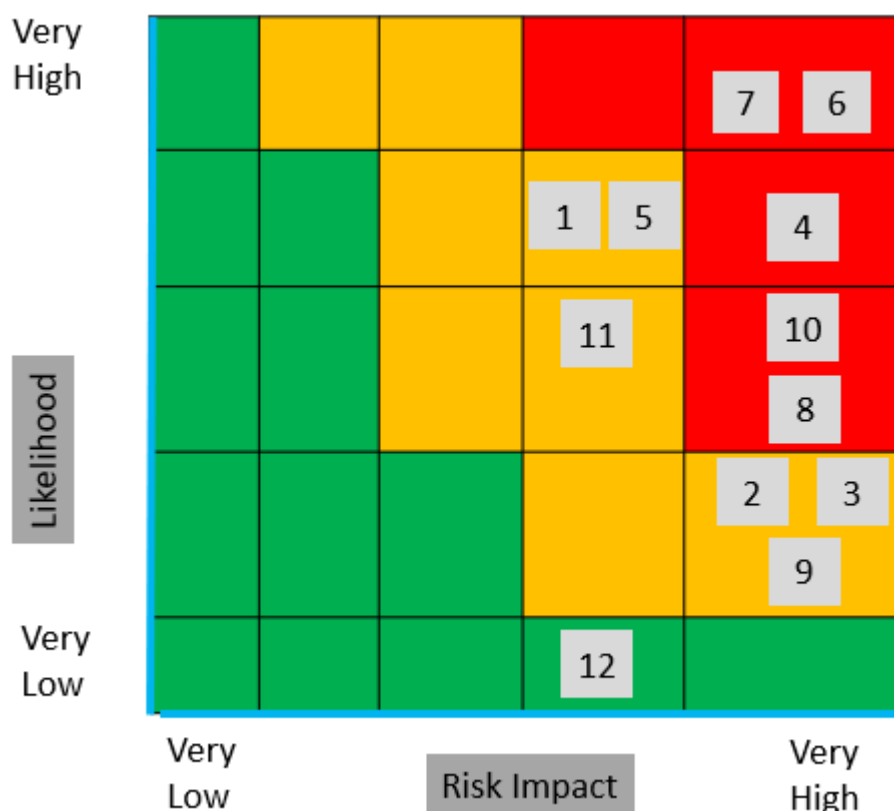
## Strategic Report

for the year ended 31 March 2020

	Principal Risk Summary	March 2017	March 2018	March 2019	March 2020
1	Public and colleague safety and wellbeing				
2	Enough clean, safe drinking water				
3	Leakage				
4	Protect our environment: flooding and natural capital				
5	Climate change and Resilience				
6	Customer experience and stakeholder trust*				
7	Financial sustainability				
8	Security, cyber and data resilience				
9	People, Talent, culture, succession and retention				
10	Organisational transformation				
11	Political, legal and regulatory change: EU-exit transition, water sector reform, loss of legitimacy.				
12	Open and transparent governance	New			

\*Customer experience and stakeholder trust was escalated to red status as a result of the AMP7 FD impact and subsequent referral to the CMA. At March 2020 the assessment also took into account the impact of Covid-19, such as where we need to access a customer's property.

Kelda group's principal risk heat map by current risk level at 31 March 2020.



The heat map plots Kelda group's principal risks by impact and probability. We assesses the impact of risk on six key measures for the business: the health and safety of our colleagues, the quality and

# ***Kelda Finance (No.1) Limited***

## ***Strategic Report***

*for the year ended 31 March 2020*

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continuity of service experience, financial stability, our reputation, compliance with our obligations and the ability to attract and retain great colleagues. Likelihood is an assessment of the time period

in which a risk may materialise. Those with a higher likelihood are considered to happen sooner unless mitigation is put in place.

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

### **Assurance and oversight of risks**



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

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020



### Our Principal Risks

Principal Risk	Change (from March 2019)	Company Objective	Treatment plans	Assurance
<b>1. Public and colleague safety</b> We may fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners, leading to harm.  Risk rating - <b>AMBER</b>	 This risk is actively managed through the Occupational Health and Safety team's continued focus on asset and process safety alongside colleague well-being, a fair culture and our Life-Saving Rules. The team reacted promptly to the emerging Covid-19 risk, providing new safe working procedures and support for our colleagues mental health and wellbeing. They continue to monitor the response needed, including the risk of a second wave.	<ul style="list-style-type: none"> <li>Put people first</li> </ul>	<ul style="list-style-type: none"> <li>ISO 45001 certified Occupational Health and Safety (OH&amp;S) Management System is supported by a suite of policies, governance and management procedures.</li> <li>OHS Training , competence and Standards. Defining the safety, operational, functional, assurance and compliance requirements to which Yorkshire Water operates. Cascading directly from the OH&amp;S Policy. Standards are mandatory for all Yorkshire Water colleagues and (unless otherwise stated) all contracted colleagues.</li> <li>OH&amp;S improvement programme now fully delivered.</li> <li>Life-Saving Rules in full operation across the whole business.</li> <li>Health and Safety Mental Health and wellbeing training for all colleagues.</li> <li>Safety, health and environment committee (SHE) monitors performance to target using detailed scorecard.</li> <li>The refreshed Health, Safety and Well-being strategy and supporting structure is embedding of best practice health, safety and well-being policies and procedures.</li> <li>Covid-19 Safety response and resilience is managed through the holistic company Incident management process.</li> </ul>	SHE committee oversee the management of occupational health and safety risks. Internal Audit test the effectiveness of second line assurance. External auditors test compliance with ISO45001.. The Health and Safety specialist team and Asset Integrity team test on-going compliance with good practice policy and procedures through a coordinated programme of inspections and audits. Delivery of remaining Health and Safety Improvement programmes are assured by the Enterprise Portfolio Management Office (PMO). Integrated assurance is being provided over compliance with Covid-19 safe working procedures.
<b>2. Enough clean, safe drinking water</b>	 This risk has been volatile through the year due	<ul style="list-style-type: none"> <li>Be great with water</li> </ul>	<ul style="list-style-type: none"> <li>Our flexible grid network.</li> </ul>	External accreditors test and certify ISO compliance across our company-wide integrated

# Kelda Finance (No.1) Limited

## Strategic Report


for the year ended 31 March 2020

<p>We supply enough clean, safe water to meet the demand of Yorkshire consumers each day.</p>	<p>to weather events and changes in demand patterns during the Covid-19 lockdown. To ensure resilience we continuously monitor risk and respond using our grid system and abstraction permits. We continue to see benefits from the impact of sustainable improvements delivered by Yorkshire Water's AMP6 capital programme.</p>	<ul style="list-style-type: none"> <li>• Love our environment</li> </ul>	<ul style="list-style-type: none"> <li>• Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply.</li> <li>• Drinking water safety planning.</li> <li>• Asset operation and maintenance plans available and followed for strategic assets.</li> <li>• ISO 9001 and 14001, 55001 certified operational policies and procedures are followed.</li> <li>• On-going resource and asset availability monitoring and response.</li> <li>• Engineering Reliability programme to support proactive maintenance.</li> <li>• AMP7 Organisational Resilience policy and Framework alongside our central control capability to enable effective emergency planning, response and recovery.</li> </ul>	<p>management system including ISO 9001, 45001, 55001, 14001.. They then assure our outturn performance. Internal Audit tests the design and operation of control framework. The independent water quality sample inspection regime tests the safety of the water supply. The Water Service Delivery Compliance team assures the completeness and relevance of policies and procedures and test compliance. The Asset Integrity team assures the asset operation and maintenance plans. The Capital Programme PMO assures capital investment.</p>
<p><b>3. Leakage</b> We may not achieve our short and medium term objectives to reduce our leakage.</p>	 <p>Our overall leakage risk has reduced this last year as we see the benefits of our AMP6 and improvement programmes embed into day to day operations. We have separated this from "Enough safe, clean drinking water" to reflect the business focus and importance that remains on achieving significant stretched improvement in our performance over the coming years into AMP7.</p>	<ul style="list-style-type: none"> <li>• Be great with water</li> <li>• Love our environment</li> </ul>	<ul style="list-style-type: none"> <li>• ISO 9001 Quality Management and 14001 Environmental Management certified operational policies and procedures are followed.</li> <li>• Leakage management plan and monitoring. Capital Investment Programme</li> <li>• Real time data analysis to support targeted leakage resolution.</li> <li>• Increased investment in new ways of working and resources to find and resolve leaks.</li> </ul>	<p>External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance. Internal Audit tests the design and operation of control framework. Water Service Delivery Compliance team provides assurance that process and procedures are followed.</p>
<p><b>4. Protect our environment: flooding and natural capital</b></p>		<ul style="list-style-type: none"> <li>• Be great with water</li> <li>• Love our environment</li> </ul>	<ul style="list-style-type: none"> <li>• 9001 Quality Management and 14001 Environmental Management certified</li> </ul>	<p>External accreditors test and certify ISO 9001 and 14001</p>

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

<p>We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we fail to prepare and adapt to flood inundation hazards in and or around our substantial asset base and land holdings.</p> <p>Risk rating - <b>RED</b></p>	<p>The risk of widespread flood inundation remains a significant hazard which is manifesting more frequently across Yorkshire. We continue to learn from pollution events to improve the impact of our discharge to the water environment. We drive mitigation through our sector leading carbon management and innovation programmes</p>		<p>environmental and operational policies and procedures are followed.</p> <ul style="list-style-type: none"> <li>• Pollution incident reduction plan.</li> <li>• Land, coast and river management programmes.</li> <li>• Bio-resources plan.</li> <li>• Asset operation and maintenance plans available and followed for strategic assets.</li> <li>• Investment programmes in wastewater treatment, networks and bathing waters.</li> <li>• Investment in water efficiency and treatment.</li> <li>• Carbon accounting and reduction initiatives are embedded.</li> </ul>	<p>compliance and assure performance outturn. Internal Audit tests the design and operation of control framework. Wastewater Service Delivery Compliance team provides assurance that process and procedures are followed. The Asset Integrity team assures the asset operation and maintenance plans. The capital programme PMO assures capital investment.</p>
<p><b>5. Climate change and resilience</b></p> <p>We may fail to plan ahead to ensure that we can maintain essential services into the future fail to deal with the impacts of population growth, climate change and extreme weather conditions.</p> <p>Risk rating - <b>AMBER</b></p>	 <p>We have clarified our 25 year strategy and are developing sector leading plans, optimising innovative partnership solutions. Extensive partnership working through AMP6 has helped lay a strong foundation to continue to protect the environment from climate shocks and stresses and drive towards carbon neutrality.</p>	<ul style="list-style-type: none"> <li>• Keep services affordable</li> <li>• Be a great partner</li> <li>• Put people first</li> <li>• Be great with water</li> <li>• Love our environment</li> </ul>	<ul style="list-style-type: none"> <li>• The Business Resilience and Integrated Management System teams are leading the introduction of BS65000 Organisational Resilience compliance to embed resilient policies and procedures across the business.</li> <li>• The development and roll-out of Yorkshire Water resilience framework.</li> <li>• Climate change strategy and WRAP.</li> <li>• Investment programme improving water efficiency and flood risk management.</li> <li>• Bio-resources plan improving renewable energy generation.</li> <li>• Innovation programme led by the Asset Management team is introducing energy efficient technology.</li> <li>• Insurance.</li> <li>• Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working, spearheaded by Living with Water partnership in Hull..</li> <li>• PR19 Resilience Framework and central control capability to enable</li> </ul>	<p>External auditors are supporting the achievement of the British Standard compliant policies and procedures. Internal Audit tests the design and operation of the control framework. The Capital Programme PMO assures capital investment. The Asset Strategy and Planning team assures the design and build of assets meets our future needs and quality standards.</p>

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

			<p>effective emergency planning, response and recovery.</p> <ul style="list-style-type: none"> <li>• We continue to source our electricity from low carbon sources and now procure only certified green electricity.</li> <li>• Our self-generation capacity has improved substantially with the completion of significant investment at Knostrop Waste Anaerobic digestion plant in Leeds.</li> </ul>	
<p><b>6. Customer experience and stakeholder trust</b></p> <p>We may not consistently meet the expectations of our customers by failing to deliver on our commitments.</p> <p>Risk rating - <b>RED</b></p>	 <p>We continue to consult and work closely with our customers to understand what they expect and prioritise the quality of the customers' experience. We remain committed to make a stepped change in our overall customer experience for the whole of Yorkshire.</p>	<ul style="list-style-type: none"> <li>• Keep services affordable</li> <li>• Be a great partner</li> <li>• Put people first</li> <li>• Be great with water</li> <li>• Love our environment</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver and embed our New Customer Experience Strategy</li> <li>• Customer Forum and online Customer Panel consultation continually drives our strategic approach..</li> <li>• Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes.</li> <li>• Our operational policies and procedures align to the achievement of customer service objectives.</li> <li>• The Company Monitoring Framework ensures we report clearly, openly accurately with our customers.</li> <li>• Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield / Doncaster and Calderdale.</li> </ul>	<p>The social value committee oversees the management of risks to customer service. External auditors test compliance with our customer service policies and procedures. Internal Audit tests the design and operation of the control framework. Data analytics provides live assurance over compliance with policies and procedures. Regulation, Water and Wastewater Service Delivery and Loop assurance teams test compliance with agreed policy and procedure.</p>
<p><b>7. Financial sustainability</b></p> <p>We may fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience including the impacts from the Covid-19 global pandemic and FD outcome from our economic regulator.</p> <p>Risk rating - <b>RED</b></p>	 <p>Although strong financial controls and restructuring programmes are delivering improvements in our financial resilience, this risk has escalated due to the combined impact of the FD and economic impacts of the</p>	<ul style="list-style-type: none"> <li>• Keep services affordable</li> </ul>	<ul style="list-style-type: none"> <li>• The annual business plan and budget is set in the context of our five year AMP.</li> <li>• Finance Business Partners provide consistent budget monitoring through the year.</li> <li>• The board investment committee oversees all capital expenditure in line with the approved five year plan.</li> <li>• The financial policies, procedures and control framework are set out on our internal intranet for colleagues.</li> </ul>	<p>Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte. The financial governance group assures financial regulations, standards and procedures. The assurance team, and Governance and Compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management,</p>

# Kelda Finance (No.1) Limited

## Strategic Report


for the year ended 31 March 2020

	Covid-19 pandemic, which are still being quantified.		<ul style="list-style-type: none"> <li>Financial restructuring programmes are providing headroom, to support resilience.</li> <li>Arrangements are in place to support customer affordability and managing customer debt.</li> <li>The General IT Control Framework automates and embeds financial controls including the segregation of duties and access.</li> </ul>	commercial and procurement controls. Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.
<b>8. Security, cyber and data resilience</b> We may fail to keep our people, assets and information secure.  Risk rating - <b>RED</b>	 We remain vigilant to the ever present security threat, particularly during the Covid-19 pandemic which has required unfamiliar ways of working and an increased threat to cyber security. We continue to strengthen our risk monitoring and prioritise physical, information and cyber controls to protect critical service. We are improving the security culture and awareness. We have clear, tested response plans and technology governance to enable timely service recovery.	<ul style="list-style-type: none"> <li>Keep services affordable</li> </ul>	<ul style="list-style-type: none"> <li>The security steering group oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security.</li> <li>Our information security management procedures are aligned with ISO27001 (Information Security Management)</li> <li>The General IT Control (GITC) Framework automates and embeds security controls, particularly over access.</li> <li>A range of physical security controls are in place across all our sites.</li> <li>There is an on-going training, development and communication programme for all colleagues to improve security culture and compliance.</li> <li>A range of information and cyber security projects are further improving the control environment, to achieve GDPR, Network Information Systems Directive (NISD) and other external standards.</li> </ul>	External financial auditors test and report on our GITCs. Internal Audit, using co-source expertise, tests the design and operation of the control framework. The Security Steering Group oversees compliance with policies and procedures. ISO 27001 compliance is monitored through the Information Security team. External expertise is used to assure the adequacy of policies and procedures and test compliance. Compliance is monitored by technical specialist teams using data analytics and real-time assurance techniques. The Data Protection Officer oversees development of GDPR compliant policies and procedures, including an inspection programme.
<b>9. People, Talent, culture, succession and retention.</b> Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future.	 This risk has reduced due to the implementation of major programmes and controls.	<ul style="list-style-type: none"> <li>Put people first</li> </ul>	<ul style="list-style-type: none"> <li>Our dedicated HR team set policies and procedures, which are published on our Intranet.</li> <li>The responsible leaders' framework sets core and functional competencies, achievement is monitored via our</li> </ul>	Internal Audit tests the design and operation of the control framework and cultural alignment. Our Speak Up (whistleblowing) Policy allows colleagues to raise

# Kelda Finance (No.1) Limited

## Strategic Report



for the year ended 31 March 2020

<p>Risk rating - <b>AMBER</b></p>	<p>These include the launch of our people-centric ambition and supporting behaviours and the development of our People Strategy which oversees a suite of programmes aimed at attracting, retaining and developing the right skills. The colleague engagement forum has informed this wider policy change.</p>		<p>annual performance management cycle.</p> <ul style="list-style-type: none"> <li>• We have a company-wide approach to succession planning, to identify and sustain our critical skills.</li> <li>• Our management and corporate development programmes improve awareness of controls, support our learning culture helping achieve future objectives.</li> <li>• Our industry leading approach to incentives and reward is overseen by the remuneration committee.</li> <li>• Colleague Engagement forum meeting regularly with our board and non executive teams.</li> </ul>	<p>concerns to be investigated directly.</p> <p>Our business-wide colleague engagement survey provides assurance over colleague trust and culture.</p> <p>The HR team uses data analytics to test compliance with HR policies and assures our capacity and capability.</p>
<p><b>10. Organisational transformation</b> We may fail to achieve the transformation required to deliver our customer expectations.</p> <p>Risk rating - <b>RED</b></p>	 <p>This principal risk reflects the extent of our ambitions and the organisational transformation currently in progress to achieve them. We have recently delivered our new company purpose, ambition and behaviours face to face to the whole company via roadshows, setting strong foundations for AMP7.</p>	<ul style="list-style-type: none"> <li>• Keep services affordable</li> <li>• Be a great partner</li> <li>• Put people first</li> <li>• Be great with water</li> <li>• Love our environment</li> </ul>	<ul style="list-style-type: none"> <li>• The Yorkshire Water Leadership Team oversees the delivery of the portfolio of change, prioritising resource to manage risk.</li> <li>• There is an integrated programme of change initiatives.</li> <li>• The corporate approach to programme management sets a standard control framework.</li> <li>• Performance management processes throughout the business support the delivery of change.</li> </ul>	<p>Internal Audit tests the design and operation of portfolio and programme management controls.</p> <p>The Programme management office (PMO) provides assurance over individual transformation programmes, including Gateway reviews. The Enterprise Portfolio Management team provides overarching assurance over our transformation programme.</p> <p>A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives.</p>

# Kelda Finance (No.1) Limited

## Strategic Report

for the year ended 31 March 2020

<p><b>11. Political, legal and regulatory change</b></p> <p>We may fail to adapt quickly to externally driven political and regulatory change.</p> <p>Risk rating – <b>AMBER</b></p>	 <p>This principal risk recognises the changing political environment facing the Water Industry and the UK. This includes our comprehensive response to EU-Exit transition and water sector reform.</p>	<ul style="list-style-type: none"> <li>• Be a great partner</li> </ul>	<ul style="list-style-type: none"> <li>• Our Corporate Affairs and Regulation teams lead the engagement with policy makers and water sector to provide early visibility of regulatory, statutory changes allowing timely management</li> <li>• Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations.</li> <li>• A suite of cross-business training and development promotes awareness of new obligations.</li> <li>• Emergency Planning and board led response to EU exit no deal planning. Weekly national level water sector updates to central government.</li> <li>• Directors have been working nationally with Water UK and peer companies to respond to the legitimacy challenge and have developed a national framework for a social contract for the whole water sector.</li> <li>• YW's social value committee drives and enhances the oversight and governance of social value delivery for the company</li> </ul>	<p>A programme of internal and external audits tests the design and operation of controls to achieve compliance. The Regulation team monitors the compliance with our regulatory obligations. Our risk and controls self-assessment requires all senior leaders to assure awareness of, and compliance with, our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.</p>
<p><b>12. Open and transparent governance</b></p> <p>Our processes and actions may not be transparent.</p> <p>Risk rating - <b>GREEN</b></p>	 <p>This risk recognises our clear AMP7 ambitions and drive for transparency, better compliance and a supportive culture of integrity, strong ethics and trust delivered by our people.</p>	<ul style="list-style-type: none"> <li>• Be a great partner</li> </ul>	<ul style="list-style-type: none"> <li>• The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks.</li> <li>• The Company Monitoring Framework ensures we report clearly, openly accurately.</li> <li>• Data governance and data quality policies and procedures are set out on our Intranet.</li> </ul>	<p>Internal Audit tests the design and operation of the data governance and quality control framework. External auditors review the Annual Performance Report and Annual Report and Financial Statements.</p>

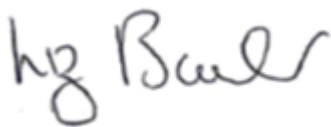
# **Kelda Finance (No.1) Limited**

## **Strategic Report**

*for the year ended 31 March 2020*

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The Strategic report was approved by a duly authorised committee of the board of directors on 28 July 2020 and was signed on its behalf by:

A handwritten signature in dark ink, appearing to read 'hg Barber', is positioned above the printed name of the director.

**E M Barber, Director**

28 July 2020

# **Kelda Finance (No.1) Limited**

## **Corporate Governance Report**

*for the year ended 31 March 2020*

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### **Principles of Corporate Governance**

The board is accountable to the group's shareholders for maintaining standards of corporate governance.

Kelda Finance (No.1) Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to Kelda Holdings Limited (Kelda Holdings) group is detailed in the Annual Report and Financial Statements of that company, which can be found on our website.

### **The board of directors**

The board holds meetings when it is considered appropriate or where business needs required. The board held two meetings during the year.

The board comprises two directors:

Liz Barber  
Kathy Smith

Richard Flint retired from the board on 12 September 2019.

### **Internal control and risk management**

The board is responsible for the group's internal control systems and for reviewing their effectiveness. The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the group have been in place for the year to 31 March 2020 and up to the date of approval of the Annual Report and Financial Statements (ARFS) and are regularly reviewed by the board. The group has a comprehensive and well-defined risk management policy, including control policies, with clear structures, delegated authority levels and accountabilities, described in pages 51 to 55 within the Strategic report. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. The process can only provide reasonable, not absolute, assurance against material misstatement or loss. The group risk and resilience committee monitors the overall level of risk, the quality of control frameworks and the delivery of action plans to bring risk in line with appetite. In relation to financial reporting, the systems of risk management and internal control include an accounting policy manual and an established system of accounting processes, including management monitoring and review.

In 2019/20 the group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

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

The Kelda Holdings audit committee has considered the control environment and control activities which the board can rely on for disclosures in this report. During the reporting year, the committee has also acted on behalf of the group to review the effectiveness of risk management, internal audit and external audit.

# ***Kelda Finance (No.1) Limited*** ***Corporate Governance Report***

*for the year ended 31 March 2020*

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

# **Kelda Finance (No.1) Limited**

## **Directors' Report**

*for the year ended 31 March 2020*

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The directors present their report and the audited consolidated financial statements for the group for the year ended 31 March 2020. The Directors' report should be read in conjunction with the Strategic report. The corporate governance report on pages 64 to 65 forms part of this Directors' report.

### **Financial results for the year**

The loss for the financial year was £22.7m (2018/19: loss of £145.8m).

### **Dividends**

No dividends were paid during the year (2018/19: £nil).

### **Principal activity**

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

The principal activity of the company is to be a holding company within the Kelda Holdings Limited group, and is expected to continue to be so for the foreseeable future. The sale of the Yorkshire Water non household retail customer base took place on the 30 September 2019 to Scottish Water Business Stream Ltd. Three Sixty Water Services Limited continues to support the delivery of these services to their Yorkshire customers until 31 March 2022 under an extended Transitional Services Agreement with Business Stream.

### **Business review**

A review of the development and performance of the group, including strategy, the financial performance during the year, key performance indicators, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the group are set out in the Strategic report on pages 2 to 63.

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

### **Directors**

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

Liz Barber  
Richard Flint (retired 13 September 2019)  
Kathy Smith

The company had directors' and officers' liability insurance in place throughout the financial year and up to the date of approval of the financial statements. By virtue of the articles of association, the company had also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

### **Shareholders**

As at the 31 March 2020, the shareholders of the group were as follows.

- Wharfedale Hong Kong Limited (managed by DWS): 23.37% shareholding
- Gateway Infrastructure HK Limited, Gateway HK Water Limited and Gateway HK Water II Limited, (managed by Corsair Infrastructure Management L.P.): 30.32% shareholding
- GIC: 33.56% shareholding
- SAS Trustee Corporation: 12.75% shareholding

# **Kelda Finance (No.1) Limited**

## **Directors' Report**

*for the year ended 31 March 2020*

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### **Research and development**

The group undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2019/20 £4.0m (2018/19 £3.2m) was committed to research and development.

### **Fixed assets**

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

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

### **Revaluation of assets**

Certain classes of the company's tangible assets were revalued in the year, as detailed in note 11 to the statutory financial statements. As a result of the valuation carried out at 31 March 2019 the carrying value of the infrastructure assets has decreased by £178.5m and the resulting revaluation adjustment taken to the revaluation reserve.

### **Political donations**

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

As part of its stakeholder engagement programme the group incurred expenditure of £2,500 (2018/19: £2,000) on such activities.

### **Annual General Meeting**

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

### **Going concern**

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

Kelda Finance (No.1) Limited has available a combination of cash and committed undrawn bank facilities totalling £819.7m at 31 March 2020 (2019: £590.6m) comprising £530.2m undrawn committed bank facilities and £289.5m of cash and cash equivalents. At 30 June 2020, Kelda Finance (No.1) Limited had available a combination of cash and committed undrawn bank facilities totalling £749.3m, comprising £530.0m undrawn committed bank facilities and £219.3m of cash and cash equivalents.

The directors have considered the business plan and the cash position of the Yorkshire Water, as the main subsidiary or the group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve months from the date of signing the financial statements. In addition, the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period.

Our securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained further below. A baseline model, established from the company's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds.

# **Kelda Finance (No.1) Limited**

## **Directors' Report**

*for the year ended 31 March 2020*

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Following Ofwat's FD (FD) for Yorkshire Water for AMP7, the board took a unanimous decision to challenge this with the CMA. This was based on analysis which showed that the FD would compromise our core purpose and push the costs of resilience and climate adaptation onto future customers. Whilst this process is ongoing, and in the absence at the date of writing of any response from Ofwat, the baseline model used for both going concern and long term viability has been completed on the basis of the FD. We consider this a prudent approach, as it does not include any potential upside from the review process. Whilst the CMA challenge could also potentially result in downsides, it is clearly the board's view that the challenge will result in a beneficial outcome.

In assessing going concern the directors have also taken into account the potential impact of the Covid-19 pandemic and economic impact of the lockdown restrictions on Yorkshire Water and the main group subsidiary. We developed a model that assesses the potential impact of Covid-19 on forecast profit and loss, balance sheet and cash flow, as well as reviewing impact on available liquidity and key interest cover ratios for 2020/21 and 2021/22. The model included assumptions on revenue (household and non-household), inflation, operating expenditure, working capital, cash flow and capital expenditure.

Scenarios were initially presented to the board mapping out low, moderate and extreme outcomes for each impacted financial item. These were then combined into one scenario in order to model sensitivity of the assumptions. The modelling was subsequently updated to reflect actual financial results for April and May 2020.

The model includes risks associated with the following items:

- Known additional costs above business plan (eg: Covid-19, CMA challenge, increased insurance premiums, Traffic Management Act).
  - Reduced savings in the original business plan as a result of delays to specific initiatives.
  - Impact of Covid-19 related delays to capital schemes and change initiatives including: lower capital payments, reduced capitalisation of costs and outsourced contract costs.
1. Reduced debtor collections.
  2. Impact on revenue of increased household and reduced non-household consumption levels during and following lockdown.
  3. Changes in assumed inflation impacting 2021/22 revenues.
  4. Regulatory, environmental, or other fines plus associated legal costs.
  5. Interest costs.
  6. Debt service requirements.
  7. Potential inability to raise new debt in 2020/21.

We have also performed a retrospective review of historical forecasting against approved business plans to demonstrate the ability to manage significant disruptive events broadly within plan. Our best efforts to estimate the impacts in this analysis have been reflected in this modelling and in the detail below, based on information available up to the date of publication.

The modelling showed that, in all of the scenarios considered, from a liquidity perspective Yorkshire Water would have significant headroom on facilities available to manage its business risks throughout the going concern period, with the minimum modelled headroom being £532.0m.

However, in the absence of any mitigating action being taken, the most severe but reasonably possible scenario modelled indicates a breach of the 'trigger' threshold in the interest cover covenant for the year to March 2021, but not the 'default' threshold that would result in the start of a standstill period. Any such breach of the 'trigger' threshold would activate initial creditor protections under the terms of the securitised financing arrangements, which are designed to maintain the company's creditworthiness without disrupting its ability to trade.

As disclosed below, Yorkshire Water has substantially progressed one mitigating action and executed an amendment to the confirmed cashflows of seven index-linked swaps. This amendment rephases future receipts to reduce net interest costs by £10.6m in 2020/21 and, as a contingent measure, allows the ability to choose to rephase further future receipts of the same swaps.

Once applied to the severe but reasonable modelled outcomes, this amendment coupled with other identified mitigating actions, which the directors believe are feasible, indicate that interest cover ratios would be in excess of covenanted trigger thresholds throughout the going concern review period and beyond.

# **Kelda Finance (No.1) Limited**

## **Directors' Report**

*for the year ended 31 March 2020*

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Yorkshire Water forms the largest subsidiary of the group, contributing 99.5% towards group revenue and 101% towards EBITDA for the year end 31 March 2020. It has also been concluded that there are no material uncertainties that could cast significant doubt over the ability of any other group entity to continue as a going concern.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that the group is well placed to manage its business risks successfully and have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

### **Post balance sheet event**

In April 2020, Yorkshire Water purchased Livingstone House in Leeds for £20.0m. The existing lease for the building, which was due to terminate in 2025 and having total remaining lease commitments of £7.5m, has been superseded by a new agreement for ground rent totalling £11.9m, payable in equal annual instalments over 132 years.

The Covid-19 global pandemic and resulting economic impact was ongoing at the reporting date and is expected to have material impacts in the 2020/21 financial year. Whilst we expect the ongoing situation to impact both our household and non household markets, given the uncertainties in the scope, timing and length of the impact at the time of publication, we cannot give any accurate or reliable estimates of impacts in this report. The assessment of the impact of Covid-19 on going concern is shown in the previous section.

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

On 3 July 2020, the company executed an amendment to the confirmed cashflows of seven swaps, with a total notional value of £225.5m, to match more appropriately its profiles of revenues, collections and net interest costs during AMP7, which are likely to change as a result of the Covid-19 pandemic. This amendment resulted in a rephasing of receipts from future years out to 2027/28, such that net interest costs will reduce by £10.6m in 2020/21. In addition, the executed amendment allows the choice of rephasing further future receipts, totalling £11.8m into 2020/21 and £23.2m into 2021/22.

### **Independent auditors**

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

### **Disclosure of information to auditors**

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

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

### **Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board / as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

# **Kelda Finance (No.1) Limited**

## **Directors' Report**

*for the year ended 31 March 2020*

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However, directors are also required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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' report was approved by a duly authorised committee of the board of directors on 28 July 2020 and signed on its behalf by:



**E M Barber, Director**

28 July 2020

Western House  
Halifax Road  
Bradford  
West Yorkshire  
BD6 2SZ

Company secretary: Kathy Smith

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELDA FINANCE (No.1) LIMITED

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kelda Finance (No.1) Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 27 of the group accounts; and
- the related notes 1 to 6 of the parent company accounts.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, 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 group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### ***Auditor's responsibilities for the audit of the financial statements***

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### ***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 group and of the parent company and their 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**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Use of our report**

*This report is made solely to the company's members, as a body, in accordance with 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 (Senior statutory auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

28 July 2020

**Kelda Finance (No.1) Limited**  
**Consolidated financial statements**  
for the year ended 31 March 2020

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**Consolidated statement of profit or loss**  
for the year ended 31 March 2020

		2020 £m	Restated <sup>1</sup> 2019 £m
	Note		
<b>Revenue</b>	3	<b>1,062.5</b>	1,062.6
Operating costs before exceptional items	4	(842.2)	(797.6)
Exceptional items	5	(8.1)	(34.4)
<b>Total operating costs</b>		<b>(850.3)</b>	(832.0)
<b>Operating profit from continuing operations</b>		<b>212.2</b>	230.6
Finance income	7	59.8	59.6
Finance costs before fair value costs		(222.6)	(211.9)
Fair value costs	19	(40.2)	(250.0)
Finance costs	7	(262.8)	(461.9)
<b>Profit/(loss) from continuing operations before taxation</b>		<b>9.2</b>	(171.7)
Tax (charge)/credit	8	(31.9)	25.9
<b>Total loss for the year</b>		<b>(22.7)</b>	(145.8)

The notes on pages 80 to 135 form an integral part of the financial statements.

<sup>1</sup> Please see note 2 for details

**Kelda Finance (No.1) Limited**  
**Consolidated financial statements**  
for the year ended 31 March 2020

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**Consolidated statement of comprehensive income/(expense)**  
for the year ended 31 March 2020

	Note	2020 £m	2019 £m
<b>Total loss for the year</b>		<b>(22.7)</b>	<b>(145.8)</b>
<b>Other comprehensive expense</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
(Impairment)/Gains on revaluation of assets before taxation	11	<b>(178.5)</b>	41.0
Taxation on revaluation of infrastructure assets	8	<b>18.5</b>	(7.0)
		<b>(160.0)</b>	34.0
Remeasurements of post-employment benefit obligations:			
Remeasurement of employer funded retirement benefit scheme before taxation (EFRBS)		<b>0.4</b>	(0.5)
		<b>0.4</b>	(0.5)
<b>Items that may be subsequently reclassified to profit or loss</b>			
Losses on hedges taken to equity before taxation		<b>(2.8)</b>	-
Deferred tax movement in relation to hedges	8	<b>0.5</b>	-
		<b>(2.3)</b>	-
<b>Other comprehensive (expense)/income for the year, net of tax</b>		<b>(161.9)</b>	33.5
<b>Total comprehensive expense for the year</b>		<b>(184.6)</b>	<b>(112.3)</b>

**Kelda Finance (No.1) Limited**  
**Consolidated financial statements**  
for the year ended 31 March 2020


**Consolidated statement of financial position**  
**as at 31 March 2020**

	Note	2020 £m	2019 £m
<b>Non-current assets</b>			
Intangible assets	10	171.9	124.2
Derivative financial assets	19	166.6	117.8
Property, plant and equipment	11	7,794.1	7,850.0
Trade and other receivables	12	1,140.4	1,150.3
Right of use assets	11	61.0	-
		<b>9,334.0</b>	<b>9,242.3</b>
<b>Current assets</b>			
Inventories		3.4	3.1
Trade and other receivables	12	284.4	250.2
Tax assets		2.4	2.4
Cash and cash equivalents	13	289.5	51.5
		<b>579.7</b>	<b>307.2</b>
<b>Total assets</b>		<b>9,913.7</b>	<b>9,549.5</b>
<b>Current liabilities</b>			
Trade and other payables	15	(389.7)	(353.1)
Deferred contributions on depreciated assets	16	(10.8)	(11.0)
Borrowings	13	(370.8)	(862.1)
Lease Liabilities	14	(4.1)	-
		<b>(775.4)</b>	<b>(1,226.2)</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	(3.0)	(5.0)
Deferred contributions on depreciated assets	16	(484.1)	(455.6)
Borrowings	13	(5,603.8)	(4,689.5)
Financial liabilities	19	(2,134.1)	(2,094.7)
Provisions for other liabilities and charges		(0.4)	(0.4)
Lease Liabilities	14	(91.2)	-
Deferred income tax liabilities	17	(389.5)	(387.0)
		<b>(8,706.1)</b>	<b>(7,632.2)</b>
<b>Total liabilities</b>		<b>(9,481.5)</b>	<b>(8,858.4)</b>
<b>Net assets</b>		<b>432.2</b>	<b>691.1</b>
<b>Equity attributable to owners of the parent</b>			
Equity shares	18	-	-
Hedging reserve		(2.3)	-
Revaluation reserve		79.9	639.8
Accumulated profits		354.6	51.3
<b>Total equity</b>		<b>432.2</b>	<b>691.1</b>

***Kelda Finance (No.1) Limited***  
***Consolidated financial statements***  
***for the year ended 31 March 2020***

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The financial statements on pages 74 to 135 were approved by a duly authorised committee of the board of directors on 28 July 2020 and signed on its behalf by:



**E M Barber**

Director  
28 July 2020

Kelda Finance (No.1) Limited  
Registered in England no. 08066326

Registered Address:

Western House  
Halifax Road  
Bradford  
West Yorkshire  
BD6 2SZ

**Kelda Finance (No.1) Limited**  
**Consolidated statement of changes in equity**  
for the year ended 31 March 2020

	Note	Share premium £m	Hedging reserve £m	Revaluation reserve £m	Accumulated profit £m	Total equity £m
Restated at 1 April 2018		-	-	605.8	265.1	870.9
Loss for the year		-	-	-	(145.8)	(145.8)
Dividends paid	9	-	-	-	(67.5)	(67.5)
Revaluation of fixed assets before taxation		-	-	41.0	-	41.0
Income tax on revaluation of fixed assets		-	-	(7.0)	-	(7.0)
Revaluation of employer funded retirement benefit scheme		-	-	-	(0.5)	(0.5)
At 31 March 2019		-	-	639.8	51.3	691.1
Loss for the year		-	-	-	(22.7)	(22.7)
Dividends paid	9	-	-	-	(74.4)	(74.4)
Revaluation of fixed assets before taxation		-	-	(178.4)	-	(178.4)
Income tax on revaluation of fixed assets		-	-	18.5	-	18.5
Revaluation of employer funded retirement benefit scheme		-	-	-	0.4	0.4
Losses on cash flow hedges taken to equity before taxation		-	(2.8)	-	-	(2.8)
Deferred tax movement in relation to hedges		-	0.5	-	-	0.5
Total comprehensive income for the year		-	(2.3)	479.9	(45.4)	432.2
Shares issued	18	400.0	-	-	-	400.0
Capital reduction	18	(400.0)	-	(400.0)	400.0	(400.0)
At 31 March 2020		-	(2.3)	79.9	354.6	432.2

**Kelda Finance (No.1) Limited**  
**Consolidated statement of cash flows**  
for the year ended 31 March 2020

	Note	2020 £m	2019 £m
<b>Cash flow from operating activities</b>	20	<b>547.0</b>	538.0
Income taxes paid		(14.2)	(11.4)
Interest paid		(180.6)	(233.7)
<b>Net cash generated from operating activities</b>		<b>352.2</b>	292.9
<b>Cash flows from/ (used in) investing activities</b>			
Interest received		58.5	117.2
Net proceeds from disposal of operations		3.4	-
Proceeds on disposals of property, plant and equipment		2.2	3.2
Purchases of property, plant and equipment		(529.3)	(553.2)
<b>Net cash used in investing activities</b>		<b>(465.2)</b>	(432.8)
<b>Cash flows from/ (used in) financing activities</b>			
Dividends paid		(74.4)	(67.5)
Borrowings raised		947.9	390.0
Repayments of borrowings		(516.0)	(72.9)
Repayment of lease liabilities		(16.4)	(10.8)
Repayment of loan received from parent company		9.9	33.1
Amounts paid upon restructure of inflation linked swaps		-	(121.7)
<b>Net cash from/ (used in) financing activities</b>		<b>351.0</b>	150.2
<b>Net increase in cash and cash equivalents</b>		<b>238.0</b>	10.3
<b>Cash and cash equivalents at the beginning of the year</b>		<b>51.5</b>	41.2
<b>Cash and cash equivalents at the end of the year</b>	13	<b>289.5</b>	51.5

Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current assets to which they relate. They were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash flows by £27.3m and increasing investing cash flows by the same amount.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements**

*for the year ended 31 March 2020*

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### **1. Authorisation of financial statements**

The group's financial statements for the year ended 31 March 2020 were authorised for issue by the board of directors on 28 July 2020 and the balance sheet was signed on the board's behalf by Liz Barber, Director. Kelda Finance (No.1) Limited is a private company limited by shares, incorporated and resident for tax in the UK. The registered office address of Kelda Finance (No.1) Limited is Western House, Halifax Road, Bradford, BD6 2SZ.

### **2. Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated, except for the adoption of IFRS 16, the impact of which is disclosed on page 90.

#### **Basis of accounting**

The consolidated financial statements of Kelda Finance (No.1) Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the group for the year ended 31 March 2020.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 92 to 93.

#### **Going concern**

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. Kelda Finance (No.1) Limited has available a combination of cash and committed undrawn bank facilities totalling £819.7m at 31 March 2020 (2019: £590.6m) which comprised £289.5m in available cash and short term deposits (2019: £51.5m) and £530.2m of undrawn committed borrowing facilities (2019: £539.1m). At 30 June 2020, Kelda Finance (No.1) Limited had available a combination of cash and committed undrawn bank facilities totalling £749.3m, comprising £530.0m undrawn committed bank facilities and £219.3m of cash and cash equivalents.

The directors have considered the business plan and the cash position of Yorkshire Water, as the main subsidiary of the group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve months from the date of signing the financial statements. In addition, the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period.

Our securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained further below. A baseline model, established from the company's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds.

Following Ofwat's FD for Yorkshire Water for AMP7, the board took a unanimous decision to challenge this with the CMA. This was based on analysis which showed that the FD would compromise our core purpose and push the costs of resilience and climate adaptation onto future customers. Whilst this process is ongoing, and in the absence at the date of writing of any response from Ofwat, the baseline model used for both going concern and long term viability has been completed on the basis of the FD. We consider this a prudent approach, as it does not include any potential upside from the review process. Whilst the CMA challenge could also potentially result in downsides, it is clearly the board's view that the challenge will result in a beneficial outcome.

In assessing going concern the directors have also taken into account the potential impact of the Covid-19 pandemic and economic impact of the lockdown restrictions on Yorkshire Water as the main group subsidiary. We developed a model that assesses the potential impact of Covid-19 on forecast profit and loss, balance sheet and cash flow, as well as reviewing impact on available liquidity and key interest cover ratios for 2020/21 and 2021/22. The model included

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

assumptions on revenue (household and non-household), inflation, operating expenditure, working capital, cash flow and capital expenditure.

Scenarios were initially presented to the board mapping out low, moderate and extreme outcomes for each impacted financial item. These were then combined into one scenario in order to model sensitivity of the assumptions. The modelling was subsequently updated to reflect actual financial results for April and May 2020.

The model includes risks associated with the following items:

- Known additional costs above business plan (e.g.: Covid-19, CMA challenge, increased insurance premiums, Traffic Management Act).
- Reduced savings in the original business plan as a result of delays to specific initiatives.
- Impact of Covid-19 related delays to capital schemes and change initiatives: lower capital payments, reduced capitalisation of costs and outsourced contract costs.
- Reduced debtor collections.
- Impact on revenue of increased household and reduced non-household consumption levels during and following lockdown.
- Changes in assumed inflation impacting 2021/22 revenues.
- Regulatory, environmental, or other fines plus associated legal costs.
- Interest costs.
- Debt service requirements.
- Potential inability to raise new debt in 2020/21.

We have also performed a retrospective review of historical forecasting against approved business plans to demonstrate the ability to manage significant disruptive events broadly within plan. Our best efforts to estimate the impacts in this analysis have been reflected in this modelling and in the detail below, based on information available up to the date of publication. The modelling showed that, in all of the scenarios considered, from a liquidity perspective Yorkshire Water would have significant headroom on facilities available to manage its business risks throughout the going concern period, with the minimum modelled headroom being £532.0m. However, in the absence of any mitigating action being taken, the most severe but reasonably possible scenario modelled indicates a breach of the 'trigger' threshold in the interest cover covenant for the year to March 2021, but not the 'default' threshold that would result in the start of a standstill period. Any such breach of the 'trigger' threshold would activate initial creditor protections under the terms of the securitised financing arrangements, which are designed to maintain the Company's creditworthiness without disrupting its ability to trade.

As disclosed below, Yorkshire Water has substantially progressed one mitigating action and executed an amendment to the confirmed cashflows of seven index-linked swaps. This amendment rephases future receipts to reduce net interest costs by £10.6m in 2020/21 and, as a contingent measure, allows the ability to choose to rephase further future receipts of the same swaps. Once applied to the severe but reasonable modelled outcomes, this amendment coupled with other identified mitigating actions, which the directors believe are feasible, indicate that interest cover ratios would be in excess of covenanted trigger thresholds throughout the going concern review period and beyond. Yorkshire Water forms the largest subsidiary of the group, contributing 99.5% towards group revenue and 101% towards EBITDA for the year end 31 March 2020. It has also been concluded that there are no material uncertainties that could cast significant doubt over the ability of any other group entity to continue as a going concern.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that the group is well placed to manage its business risks successfully and have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 2. Accounting policies (continued)

financial statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

#### Prior year restatement

There has been a presentational change in terms of accounting for movements on derivatives. Adopting the 'single line of account' policy under IAS 1, the interest and fair value income is presented within finance costs and fair value charges, where it was previously presented as part of interest receivable. The following table demonstrates the adjustment to 2018/19 balances previously reported.

The following adjustments are required to ensure all gains and losses on derivatives that are not in hedge accounting relationships are reported as appropriate in a single line item in the income statement; and to ensure that where a derivative is in a hedge accounting relationship the "realised" portion of the derivative gains and losses is reported in the same income statement line item as the hedged transaction.

	Reported 2019 £m	Adjustment 2019 £m	Restated 2019 £m
<b>Finance income</b>			
Interest on bank deposits	0.1	-	0.1
Interest receivable from inflation linked swaps	51.9	(51.9)	-
Interest receivable from cross currency interest rate swaps	12.4	(12.4)	-
Interest receivable on loans to group companies	59.5	-	59.5
<b>Finance income before fair value movements</b>	<b>123.9</b>	<b>(64.3)</b>	<b>59.6</b>
Fair value income (note 7)	41.8	(41.8)	-
<b>Total interest receivable and similar income</b>	<b>165.7</b>	<b>(106.1)</b>	<b>59.6</b>
<b>Finance costs</b>			
Interest payable on guaranteed bonds	(152.1)	-	(152.1)
Interest payable on US Dollar bonds	(10.9)	-	(10.9)
Interest payable on AU Dollar bonds	(2.0)	-	(2.0)
Interest receivable from cross currency interest rate swaps	-	12.4	12.4
Amortisation of issue costs in respect of bonds	(3.3)	-	(3.3)
<b>Total finance costs</b>	<b>(168.3)</b>	<b>12.4</b>	<b>(155.9)</b>
Bank loans and overdrafts	(17.4)	-	(17.4)
Bank loans under Kelda Finance facility	(11.4)	-	(11.4)
RPI accretion on inflation linked bonds	(38.1)	-	(38.1)
RPI accretion on inflation linked swaps	-	-	-
Interest payable on inflation linked swaps	(50.6)	50.6	-
Finance leases	(1.6)	-	(1.6)
Commitment fees and miscellaneous interest	(8.3)	-	(8.3)
<b>Finance costs before interest capitalisation and fair value movements</b>	<b>(295.7)</b>	<b>63.0</b>	<b>(232.7)</b>
Interest capitalised	20.8	-	20.8
<b>Finance costs before fair value movements</b>	<b>(274.9)</b>	<b>63.0</b>	<b>(211.9)</b>
Fair value charges (note 19)	(293.1)	43.1	(250.0)
<b>Total finance cost</b>	<b>(568.0)</b>	<b>106.1</b>	<b>(461.9)</b>

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Basis of consolidation**

The group financial statements consolidate the financial statements of Kelda Finance (No.1) Limited and its subsidiaries (see note 23). The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### **Foreign currencies**

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

#### **Revenue**

##### *Water charges*

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

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

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

##### *Connection and Infrastructure charges*

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

##### *Diversions*

This revenue stream comprises income for structural alternations to the network. Revenue from diversions is recognised in the profit and loss account, with an element of deferred income on the balance sheet. Revenue is recognised over the time it takes to complete the diversion.

#### **Net operating costs**

Net operating costs include the following:

##### *Rental income*

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

##### *Other operating income*

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Finance income**

Interest receivable is recognised as the interest accrues using the effective interest method. This is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to the net carrying amount of the financial assets.

#### **Dividends payable**

Interim and final dividends payable are recognised once declared.

#### **Research and development expenditure**

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

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

#### **Taxation**

##### *Current tax*

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

##### *Deferred tax*

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

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

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

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

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

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

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Discontinued operations**

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

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

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

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

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

#### **Goodwill and intangible assets**

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

##### *Other intangible assets*

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

##### *Amortisation*

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Property, plant and equipment**

Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets are held at valuation (see note 11). Other property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment.

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

Useful economic lives are principally as follows:

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

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

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

Infrastructure assets, residential properties, non-specialised properties and rural estates are held at valuation, with the latest infrastructure valuations performed at 31 March 2020 and property valuation at 31 March 2019. An interim valuation is recorded in the intervening years if there has been a material change. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the income statement.

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

#### **Impairment of property, plant and equipment and goodwill**

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Accounting for leases**

##### **Government grants and contributions**

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

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

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

##### **Investments in joint ventures and associates**

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

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

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

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

##### **Inventories**

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Provisions**

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

Provisions are recognised where:

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

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

#### **Financial instruments**

##### *Financial assets*

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

##### *Cash and cash equivalents*

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

#### **Trade and other receivables**

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

#### **Provision for doubtful debts**

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

#### **Trade and other payables**

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Interest bearing loans and borrowings**

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

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

#### **Derivative financial instruments**

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

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

##### *Fair value hedge*

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

##### *Cash flow hedge*

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

##### *Derivatives that do not qualify for hedge accounting*

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

There has also been a presentational change in terms of accounting for movements on derivatives. Adopting the 'single line of account' policy under IAS 1, the interest and fair value income is presented within finance costs and fair value charges, where it was previously presented as part of finance income. Please see prior year restatement note above.

#### **Employee benefits**

##### *Defined contribution scheme*

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

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Share capital**

Ordinary shares are classified as equity.

#### **Exceptional items**

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

#### **Fair value estimation**

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

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

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

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

#### **New standards and interpretations**

In the current year, the Group has applied an amendment to IFRS issued by the International Accounting Standards Board (IASB) that is mandatorily effective for an accounting period that begins on or after 1 January 2019.

The group applies, for the first time, IFRS 16 'Leases'. The transition disclosures can be found in note 27. The changes to the accounting policies are set out below:

#### **IFRS 16 - Leases**

IFRS 16 has superseded the previous lease guidance including IAS 17 Leases and the related Interpretations as it became effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the group was 1 April 2019.

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

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

#### **Impact of the new definition of a lease**

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

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

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

The group has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract).

#### Impact on Lessee Accounting

##### *Operating leases*

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

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

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

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

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

This has replaced the previous requirement to recognise a provision for onerous lease contracts.

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

#### **New standards issued but not yet effective**

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

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to IFRS Standards 2018–2020 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>
Amendments to IAS 19 Employee Benefits	<i>Plan Amendment, Curtailment or Settlement</i>
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

Amendments to IFRS 9, IAS

39 and IFRS 7

Interest rate benchmark reform

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

The Interest Rate Benchmark Reform amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement issued in September 2019 introduced new disclosures to IFRS 7 Financial Instruments: Disclosures. The amendments apply to annual reporting periods beginning on or after 1 January 2020. Therefore, for the year ending 31 March 2021 Yorkshire Water will disclose the impact of this transition and any changes to hedge accounting.

### **Critical accounting estimates and significant judgements**

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

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

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

#### **Infrastructure assets valuation**

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

The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The judgement is heightened for the year ended 31 March 2020 due to the uncertainty surrounding the CMA process and Covid-19. The discount rate applied is 8.13% (2018/19: 8.00%). A long term RPI rate has been adopted of 3.0% (2018/19: 3.0%). See note 11 for the revaluation in the year and total net book value of fixed assets held. Key sensitivities to cause a material movement in the model are: 0.02% movement in RPI & CPIH; £1.57m pa movement in the underlying cash flows; and, 0.04% movement in the discount rate.

#### **Fair value of financial instruments**

The group's accounting policy for financial instruments is detailed earlier in this note. In accordance with IFRS, financial instruments are recognised in the financial statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. After taking advice from external parties, management uses its judgement to determine the derivative valuations. These are subject to adjustments to ensure they are compliant with IFRS 13 Fair Value Measurement. A credit valuation adjustment (CVA), debit valuation adjustment (DVA) and funding valuation adjustment (FVA) is calculated using expected exposures, probability of default and loss given default. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 19. Particular estimation uncertainty exists in relation to counter-party funding adjustments and own and counter-party credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £1,967.5m would be £45.7m (2018/19: £45.7m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,967.5m would be £31.6m (2018/19: £32.1m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,967.5m would be £89.8m (2018/19: £89.3m) higher or lower were the recovery rate assumption to change by ten basis points.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **2. Accounting policies** *(continued)*

#### **Revenue recognition from household customers where payment is not considered probable**

Each year management estimate the revenue attributable to customers who are not deemed probable of paying and ensure these amounts are excluded from reported revenues. Given the number of customers to whom the company provides services is significant, the estimate of those household customers who are not likely to pay their bills requires significant judgement. Management's estimate of revenue receivable that should not be recorded as revenue in the financial statements is based on amounts billed and unbilled relating to:

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

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

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

#### **Capitalisation of labour costs**

Additions made to property, plant and equipment include £52.0m (2018/19: £52.8m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

#### **Depreciation**

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

#### **Valuation of property portfolio**

Certain categories of the company's land and buildings are held under a revaluation model, and were valued by independent qualified valuers as at March 2019 resulting in a valuation of £69.2m split across non-specialist properties, rural estates and residential properties. The valuations carried out at 31 March 2019 have been considered at 31 March 2020 by the directors, who concluded that the current book values are not materially different to current market values. Increased judgement has been taken in this assessment for the year ended 31 March 2020 due to the uncertainty in the market as a result of Covid-19 and assumptions over the long term impact this will have on the company's property portfolio.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued) for the year ended 31 March 2020

### 3. Revenue

	2020 £m	2019 £m
External revenue	1,059.3	1,059.5
Inter-company revenue	3.2	3.1
<b>Total revenue from continuing operations</b>	<b>1,062.5</b>	<b>1,062.6</b>

#### Timing of revenue recognition

	2020 £m	2019 £m
At a point in time	1,046.9	1,048.9
Over time	15.6	13.7
<b>Total revenue from continuing operations</b>	<b>1,062.5</b>	<b>1,062.6</b>

### 4. Operating costs from continuing operations before exceptional items

	2020 £m	2019 £m
Own work capitalised	(52.0)	(52.8)
Raw materials and consumables	50.9	36.0
Staff costs (note 6)	153.2	129.8
Pension deficit contributions	13.4	13.0
Depreciation (note 11)	313.1	294.7
Operating lease rentals - minimum lease payments	-	3.9
Amortisation of intangible assets (note 10)	15.1	11.1
Impairment of trade receivables	10.9	5.6
Profit on disposal of property, plant and equipment	(2.1)	(2.9)

#### Auditors' remuneration

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

	2020 £m	2019 £m
Fees payable to the group's auditors:		
The audit of company's subsidiaries pursuant to legislation	0.3	0.2
Other assurance services	0.1	0.4
	<b>0.4</b>	<b>0.6</b>

Other assurance services include assurance services in relation to regulator reporting obligations. In 2018/19 additional costs were incurred for PR19.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued) for the year ended 31 March 2020

### 5. Exceptional items

	2020 £m	2019 £m
Operating costs	(11.5)	(34.4)
Profit on disposal of non-household retail business	3.4	-
	<b>(8.1)</b>	<b>(34.4)</b>

Exceptional costs of £8.1m (2018/19: £34.4m) are largely associated with extreme weather events relating to climate change (£8.0m). In preparation for AMP7 we have reviewed activities and structures of the support functions resulting in £2.4m severance costs. Subsequent to our decision to challenge the AMP7 FD (page 5) we have incurred £1.1m legal and advisory related costs. We have classified these as exceptional as we expect the ongoing CMA costs to be material in 2020/21. Offsetting these exceptional costs, we have recognised an exceptional profit on the sale of our non-household retail business (£3.4m).

These costs have been incurred as a result of events that are not expected to recur, and as such, classification as exceptional is appropriate.

### 6. Directors and employees

	2020 Number	2019 Number
<b>Average monthly number of people employed by the group</b>		
UK regulated water services	<b>3,312</b>	2,888

	2020 £m	2019 £m
<b>Total employment costs:</b>		
Wages and salaries	129.5	108.5
Social security costs	12.5	11.6
Other pension costs	11.2	9.7
	<b>153.2</b>	129.8

#### Directors' emoluments

	2020 £m	2019 £m
Aggregate emoluments	<b>2.3</b>	2.3
The amounts in respect of the highest paid director are as follows:		
	<b>2020 £m</b>	<b>2019 £m</b>
Aggregate emoluments	<b>1.2</b>	1.3

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

During the year ended 31 March 2020, one (2018/19: one) director was a contributory member of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in the year ended 31 March 2020, was £nil (2018/19: £0.2m).

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued) for the year ended 31 March 2020

### 7. Finance income and finance costs

	2020 £m	Restated 2019 £m
<b>Finance income</b>		
Interest on bank deposits	0.9	0.1
Interest receivable on loans to group companies	58.9	59.5
<b>Total finance income</b>	<b>59.8</b>	<b>59.6</b>
<b>Finance costs</b>		
Interest payable on guaranteed bonds	(156.8)	(152.1)
Interest payable on US Dollar bonds	(10.4)	(10.9)
Interest payable on AU Dollar bonds	(2.0)	(2.0)
Interest receivable from cross currency interest rate swaps	11.6	12.4
Amortisation of issue costs in respect of bonds	(4.0)	(3.3)
<b>Total finance costs for bonds</b>	<b>(161.6)</b>	<b>(155.9)</b>
Bank loans and overdrafts	(28.3)	(17.4)
Bank loans under Kelda Finance facility	-	(11.4)
RPI accretion on inflation linked bonds	(40.3)	(38.1)
Finance leases	(1.3)	(1.6)
Commitment fees and miscellaneous interest	(8.0)	(8.3)
<b>Finance costs before interest capitalisation and fair value costs</b>	<b>(239.5)</b>	<b>(232.7)</b>
Interest capitalised	16.9	20.8
<b>Finance costs before fair value costs</b>	<b>(222.6)</b>	<b>(211.9)</b>
Fair value cost (note 19)	(40.2)	(250.0)
<b>Total finance cost</b>	<b>(262.8)</b>	<b>(461.9)</b>

For more information on guaranteed, US Dollar and AU Dollar bonds refer to note 13.

The restatement of interest payable and similar charges has been explained in note 2.

Fair value charges includes interest receivable on inflation linked swaps of £52.4m (2018/19: £51.9m); fair value income of £49.9m (2018/19: £41.8m); £51.9m (2018/19: £50.6m) of inflation linked swaps coupon payable, and £2.3m (2018/19: £2.2m) in relation to interest rate swaps. Net interest receivable from swaps on bonds of £11.6m (2018/19: £12.4m) are from swaps that are designated in hedge relationship.

Cash interest paid in the 2018/19 financial year includes £0.6m for a one-off refinancing fee in relation to the extension of the company's revolving credit bank facility.

Cash interest paid in the 2019/20 financial year includes £0.3m in relation to finance leases due on 31 March 2019 but paid on 1 April 2019, as 31 March 2019 fell on a non-business day.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued) for the year ended 31 March 2020

### 8. Tax charge/(credit)

	2020 £m	2019 £m
<b>Current tax</b>		
UK Corporation tax at 19% (2019: 19%)	11.6	13.8
Adjustments in respect of prior periods	(1.2)	0.3
<b>Total current tax charge on continuing activities</b>	<b>10.4</b>	<b>14.1</b>
<b>Deferred tax</b>		
UK credit for origination and reversal of temporary differences	(10.3)	(44.0)
Under/(over) provision of tax in respect of previous periods	1.5	(0.6)
Effect of tax rate changes	30.3	4.6
<b>Total deferred tax charge/(credit) to the income statement on continuing activities (note 17)</b>	<b>21.5</b>	<b>(40.0)</b>
<b>Total tax charge/(credit) on profit/(loss) from ordinary activities to the income statement</b>	<b>31.9</b>	<b>(25.9)</b>
<b>Tax relating to items charged to equity</b>		
<b>Deferred tax:</b>		
Movement in fair value hedges	(0.5)	-
Revaluation of infrastructure assets	(18.5)	7.0
<b>Tax (credit)/charge in the group statement of comprehensive income</b>	<b>(19.0)</b>	<b>7.0</b>

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2019: 19%) to the profit/(loss) on ordinary activities before tax is as follows:

	2020 £m	2019 £m
Profit/(loss) from continuing operations before taxation	9.2	(171.7)
Current and deferred tax on group profit/(loss) on ordinary activities at the standard UK tax rate	1.8	(32.6)
Effects of:		
Expenses not deductible for tax purposes	1.5	2.5
Income not taxable	(0.8)	(0.3)
Difference in tax rates	30.3	4.6
Adjustments in relation to prior periods	0.2	(0.3)
Group relief surrendered for no charge	(0.6)	0.2
Difference between taxable profits and accounting profit on sale of Non-Household Retail Business	(0.5)	-
<b>Total group current and deferred tax charge/(credit) for the year to the income statement</b>	<b>31.9</b>	<b>(25.9)</b>

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)* *for the year ended 31 March 2020*

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### **8. Tax charge/(credit)** *(continued)*

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

Whilst the intention of Budget 2016 was that the corporation tax rate would be set at 17% from 1 April 2020 onwards, legislation will be introduced in Finance Bill 2020 to amend the main rate of corporation tax to 19% from 1 April 2020. This change was announced in Budget 2020 and the cancellation of the enacted cut to 17% made under a Budget resolution passed on 17 March 2020. As this has statutory effect, the 19% rate for 1 April 2020 onward is substantively enacted at 17 March 2020 and accordingly the deferred tax liability at 31 March 2020 has been calculated using this rate.

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

Any uncertain tax positions are assessed using internal expertise, experience and judgment together with assistance and opinions from professional advisors.

The deferred tax credit for continuing operations for the year reflected in the income statement relates to the following:

	<b>2020</b> <b>£m</b>	<b>2019</b> <b>£m</b>
Property, plant and equipment	<b>66.1</b>	(14.2)
Financial instruments	<b>(42.6)</b>	(25.9)
Pension and employment obligations	<b>(1.6)</b>	0.1
R&D expenditure credit	<b>(0.4)</b>	-
<b>Deferred tax charge/(credit)</b>	<b>21.5</b>	(40.0)

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued) for the year ended 31 March 2020

### 9. Dividends

	2020 £m	2019 £m
<b>Total dividends</b>	<b>74.4</b>	<b>67.5</b>

During the year, dividends of £74.4m, £0.74 per share (2019: £67.5m, £0.68m per share), were declared and settled in cash.

### 10. Intangible assets

	Software £m	Software under construction £m	Goodwill £m	Total £m
<b>Cost</b>				
Balance at 1 April 2019	64.2	76.6	14.2	155.0
Additions	-	62.8	-	62.8
Transfers on commissioning	97.1	(97.1)	-	-
Disposals	(1.8)	-	-	(1.8)
Balance at 31 March 2020	159.5	42.3	14.2	216.0
<b>Amortisation</b>				
Balance at 1 April 2019	30.8	-	-	30.8
Amortisation for the year	15.1	-	-	15.1
Disposals	(1.8)	-	-	(1.8)
Balance at 31 March 2020	44.1	-	-	44.1
<b>Net book value</b>				
<b>At 31 March 2020</b>	<b>115.4</b>	<b>42.3</b>	<b>14.2</b>	<b>171.9</b>
At 31 March 2019	33.4	76.6	14.2	124.2

Goodwill arose on the transfer into Yorkshire Water of the trade and net assets of The York WaterWorks Limited on 1 April 2000. The directors do not believe this should be impaired as it relates to assets which are still contributing to the generation of positive cash flows within the business.

	Software £m	Software under construction £m	Goodwill £m	Total £m
<b>Cost</b>				
Balance at 1 April 2018	51.0	23.0	14.2	88.2
Additions	6.2	60.6	-	66.8
Transfers on commissioning	7.0	(7.0)	-	-
Balance at 31 March 2019	64.2	76.6	14.2	155.0
<b>Amortisation</b>				
Balance at 1 April 2019	19.7	-	-	19.7
Amortisation for the year	11.1	-	-	11.1
Balance at 31 March 2019	30.8	-	-	30.8
<b>Net book value</b>				
<b>At 31 March 2019</b>	<b>33.4</b>	<b>76.6</b>	<b>14.2</b>	<b>124.2</b>
At 31 March 2018	31.3	23.0	14.2	68.5

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 11. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost or valuation</b>					
Balance at 1 April 2019	1,938.4	5,936.4	2,629.5	674.7	11,179.0
Additions	30.9	101.7	237.4	113.7	483.7
Transfer from group companies	-	-	-	1.5	1.5
Transfers on commissioning	108.9	17.9	210.0	(336.8)	-
Disposals	(17.3)	(32.0)	(311.4)	-	(360.7)
Revaluation	-	(178.5)	-	-	(178.5)
Reclassified as right-of-use assets	(15.2)	(69.1)	(29.0)	-	(113.3)
Balance at 31 March 2020	<u>2,045.7</u>	<u>5,776.4</u>	<u>2,736.5</u>	<u>453.1</u>	<u>11,011.7</u>
<b>Depreciation and impairment</b>					
Balance at 1 April 2019	536.3	1,406.1	1,386.6	-	3,329.0
Depreciation charge for the year	43.7	93.6	170.8	-	308.1
Impairment	-	-	-	-	-
Disposals	(17.3)	(32.0)	(311.4)	-	(360.7)
Reclassified as right-of-use assets	(5.4)	(31.8)	(21.6)	-	(58.8)
Balance at 31 March 2020	<u>557.3</u>	<u>1,435.9</u>	<u>1,224.4</u>	<u>-</u>	<u>3,217.6</u>
<b>Net book value</b>					
<b>At 31 March 2020</b>	<u><b>1,488.4</b></u>	<u><b>4,340.5</b></u>	<u><b>1,512.1</b></u>	<u><b>453.1</b></u>	<u><b>7,794.1</b></u>
At 31 March 2019	<u>1,402.1</u>	<u>4,530.3</u>	<u>1,242.9</u>	<u>674.7</u>	<u>7,850.0</u>

During the year the group capitalised borrowing costs amounting to £16.9m (2018/19: £20.8m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.17% (2018/19: 3.31%). Included in the net book value as at 31 March 2020 are £135.3m of capitalised borrowing costs (2018/19: £122.0m).

### Right of use assets

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
<b>Cost</b>				
New leases recognised	9.5	-	2.0	11.5
Reclassification of finance leases	9.8	37.3	7.4	54.5
<b>At 1 April 2019 and 31 March 2020</b>	<u><b>19.3</b></u>	<u><b>37.3</b></u>	<u><b>9.4</b></u>	<u><b>66.0</b></u>
<b>Depreciation and impairment</b>				
At 1 April 2019	-	-	-	-
Charge for the year	1.8	1.1	2.1	5.0
<b>At 31 March 2020</b>	<u><b>1.8</b></u>	<u><b>1.1</b></u>	<u><b>2.1</b></u>	<u><b>5.0</b></u>
<b>Net book value at 31 March 2020</b>	<u><b>17.5</b></u>	<u><b>36.2</b></u>	<u><b>7.3</b></u>	<u><b>61.0</b></u>

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 11. Property, plant and equipment (continued)

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost or valuation</b>					
Balance at 1 April 2018	2,092.9	5,770.9	3,405.9	498.0	11,767.7
Additions	2.9	86.6	71.0	339.7	500.2
Transfers on commissioning	75.3	35.5	52.2	(163.0)	-
Disposals	(229.8)	(0.5)	(899.6)	-	(1,129.9)
Revaluation	(2.9)	43.9	-	-	41.0
Balance at 31 March 2019	1,938.4	5,936.4	2,629.5	674.7	11,179.0
<b>Depreciation and impairment</b>					
Balance at 1 April 2018	735.9	1,318.1	2,109.8	-	4,163.8
Depreciation charge for the year	29.9	88.3	176.2	-	294.4
Impairment	0.3	-	-	-	0.3
Disposals	(229.8)	(0.3)	(899.4)	-	(1,129.5)
Balance at 31 March 2019	536.3	1,406.1	1,386.6	-	3,329.0
Net book value					
At 31 March 2019	1,402.1	4,530.3	1,242.9	674.7	7,850.0
At 31 March 2018	1,357.0	4,452.8	1,296.1	498.0	7,603.9

#### Revaluation - Infrastructure assets

The group's infrastructure assets were valued at 31 March 2020. These annual valuations were performed in accordance with IAS 16 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

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

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

There is uncertainty in the forecast cashflows as a result of Covid-19 and also the decision to ask Ofwat to refer the AMP7 FD to the CMA. An assumption underpins the infrastructure asset cash flows that Covid-19 will have short term timing and unpredictable impacts, therefore these were stripped out of the model and instead, increased uncertainty was factored into the discount rate

The decrease in infrastructure assets valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. An impairment of £178.5m, before deferred tax, was recognised in the year ended 31 March 2020 (2018/19: £43.9m gain).

#### Revaluation - Land and buildings

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

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

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 11. Property, plant and equipment (continued)

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

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is reflected in intervening years based on directors' valuations. The valuations carried out at 31 March 2019 have been considered at 31 March 2020 by the directors, who concluded that current book values are not materially different to current market values. Following the outbreak of Covid-19, there has been increased uncertainty in the property market, increasing the judgement taken over the year end valuation. Management have performed an extensive review of the portfolio and concluded that there are no material changes required. In the year ended 31 March 2019, a revaluation loss of £2.9m, before deferred tax and adjustment for historical depreciation, was recognised in the revaluation reserve, and a charge of £0.3m was also recognised in operating expenses with respect to this valuation.

#### Land and Buildings

The net book value of land and buildings comprises:

	2020 £m	2019 £m
Freehold	1,496.6	1,400.3
Long leasehold	0.5	0.6
Short leasehold	0.8	1.2
	<u>1,497.9</u>	<u>1,402.1</u>

The following information relates to tangible assets carried on the basis of revaluation

	Valuation £m	Historical cost basis £m
Infrastructure assets	4,376.7	3,926.2
Non-specialist properties	14.7	13.2
Rural estates	52.0	0.5
Residential properties	2.5	-
	<u>4,445.9</u>	<u>3,939.9</u>

Analysis of the net book value of the revalued non specialised properties, rural estates and residential properties is as follows:

	Valuation £m	Historical cost basis £m
At 31 March 2018	73.6	14.3
Disposal of revalued assets	(2.9)	-
Depreciation and impairment	(0.9)	(0.3)
At 31 March 2019	69.8	14.0
Depreciation and impairment	(0.6)	(0.3)
At 31 March 2020	<u>69.2</u>	<u>13.7</u>

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **11. Property, plant and equipment** *(continued)*

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

	Valuation £m	Restated <sup>1</sup> Historical cost basis £m
Valuation/cost at 31 March 2020	5,845.5	5,265.8
Aggregate depreciation	(1,468.8)	(1,339.6)
<b>Net book value at 31 March 2020</b>	<b><u>4,376.7</u></b>	<b><u>3,926.2</u></b>
Valuation/cost at 31 March 2019	5,936.4	5,178.1
Aggregate depreciation	(1,406.1)	(1,312.9)
<b>Net book value at 31 March 2019</b>	<b><u>4,530.3</u></b>	<b><u>3,865.2</u></b>

There have been no disposals or transfers of revalued infrastructure assets during the year.

<sup>1</sup> The amounts reported in the 2019 Annual report and financial statements in respect of the historical cost and aggregate depreciation as at 31 March 2019 were both overstated by £186.3m due to an error in compilation of the disclosure. Accordingly, the disclosures herein in relation to 2019 have been updated to reflect the corrected amounts, there has been no change to the net book value previously reported.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 12. Trade and other receivables

	2020 £m	2019 £m
<b>Amounts falling due within one year:</b>		
Trade receivables	169.7	139.2
Provision for impairment of trade receivables	(30.5)	(23.5)
	<b>139.2</b>	<b>115.7</b>
Prepayments	7.5	7.5
Accrued Income	82.4	92.6
Amounts owed by group companies	21.9	18.0
Other tax and social security	27.2	13.2
Other receivables	6.2	3.2
	<b>284.4</b>	<b>250.2</b>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by group companies	<b>1,140.4</b>	<b>1,150.3</b>

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 19 for further details of credit risks associated with financial instruments.

Amounts owed by group companies within one year and after more than one year include £213.6m (2018/19: £223.5m) in respect of a loan that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and a £743.9m loan to Kelda Eurobond Co Limited (2018/19: £743.9m).

Amounts due after more than one year by group undertakings are unsecured; bear interest at 6 month LIBOR plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum of the £213.6m loan (2018/19: £223.5m). This is shown in amounts receivable within one year and the balance is reflected in amounts receivable after one year.

Amounts owed by group companies after more than one year also includes a £191.1m (2018/19 £191.1m) loan to Kelda Eurobond Co Limited at an interest rate of six month LIBOR plus 3.97% margin.

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

The expected credit loss rate is 2.9% (2018/19: 2.2%), calculated as the impairment write off as a percentage of revenue.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 12. Trade and other receivables (continued)

As at 31 March 2020

	Not due	Less than 1 year overdue	Past due Between 1 and 2 years overdue	Between 2 and 3 years overdue	Between 3 and 4 years overdue	More than 4 years overdue	Total
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	0.2	87.9	22.3	17.9	12.6	28.8	169.7
Expected credit loss (£)	-	(3.1)	(3.2)	(5.0)	(5.0)	(14.2)	(30.5)
Expected credit loss (%)	-	3.6	14.7	28.0	39.5	49.3	18.0

As at 31 March 2019

	Not due	Less than 1 year overdue	Past due Between 1 and 2 years overdue	Between 2 and 3 years overdue	Between 3 and 4 years overdue	More than 4 years overdue	Total
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	0.7	91.3	22.8	11.6	6.2	6.6	139.2
Expected credit loss (£)	-	(2.4)	(4.6)	(4.7)	(5.2)	(6.6)	(23.5)
Expected credit loss (%)	-	2.6	20.2	40.5	83.9	100	16.9

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

	2020 £m	2019 £m
Provision brought forward	23.5	35.0
Charge in the year	27.7	5.6
Amounts written off	(20.7)	(17.1)
<b>Provision carried forward</b>	<b>30.5</b>	<b>23.5</b>

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

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 13. Financing

#### (i) Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents	71.7	37.4
Short term deposits	217.8	14.1
	<b>289.5</b>	<b>51.5</b>

At 31 March 2020, the group had available £530.2m (2019: £539.1m) of undrawn committed borrowing facilities.

#### (ii) Borrowings

	2020 £m	2019 £m
<b>Current borrowings:</b>		
Bank borrowings	50.8	48.7
Finance lease liabilities	-	14.2
Fixed rate guaranteed bonds due in less than 5 years	-	474.2
Other borrowings	320.0	325.0
	<b>370.8</b>	<b>862.1</b>
	2020 £m	2019 £m
<b>Non-current borrowings:</b>		
Bank borrowings	864.6	695.2
Fixed rate guaranteed bonds due in less than 5 years	218.8	218.8
Fixed rate guaranteed bonds due in more than 5 years	2,687.9	1,918.1
Inflation linked guaranteed bonds due in more than 5 years	1,387.4	1,351.5
Floating rate bonds due in more than 5 years	74.4	74.3
Fixed rate US Dollar bonds due in less than 5 years	343.2	313.8
Fixed rate AUS Dollar bonds due in less than 5 years	27.5	30.0
Finance lease liabilities	-	87.8
	<b>5,603.8</b>	<b>4,689.5</b>

Borrowings due in less than five years have been considered current as this demonstrates a reasonable split between the age of the debt. 'Other borrowings' include facilities such as the group's Revolving Credit Facility.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **13. Financing** *(continued)*

#### **(ii) Borrowings** *(continued)*

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

*Guaranteed bonds due 2020 £nil (2019: £274.9m)*

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

*Guaranteed bonds due 2020 £nil (2019: £199.3m)*

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

*Guaranteed bonds due 2023 £213.0m (2019: £213.3m)*

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

*Guaranteed bonds due 2023 £5.8m (2019: £5.5m)*

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

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

*Guaranteed bonds due 2026 £298.6m (2019: £nil)*

These bonds are repayable in one amount on 26 November 2026. Interest is charged at 1.75%.

*Guaranteed bonds due 2027 £6.7m (2019: £6.7m)*

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

*Guaranteed bonds due 2027 £136.9m (2019: £137.1m)*

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

*Guaranteed bonds due 2028 £59.8m (2019: £59.8m)*

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

*Guaranteed bonds due 2029 £274.7m (2019: £262.2m)*

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

*Guaranteed bonds due 2029 £107.1m (2019: £102.7m)*

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

*Guaranteed bonds due 2031 £262.9m (2019: £262.1m)*

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

*Guaranteed bonds due 2031 £0.8m (2019: £0.8m)*

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

*Guaranteed bonds due 2031 £49.8m (2019: £49.8m)*

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

*Guaranteed bonds due 2033 £49.8m (2019: £49.8m)*

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

*Guaranteed bonds due 2033 (Class B) £111.8m (2019: £105.4m)*

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

*Guaranteed bonds due 2034 £49.8m (2019: £49.8m)*

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

*Guaranteed bonds due 2036 £39.9m (2019: £39.9m)*

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

*Guaranteed bonds due 2036 £49.8m (2019: £49.8m)*

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

*Guaranteed bonds due 2037 £195.8m (2019: £195.7m)*

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

*Guaranteed bonds 2038 £49.8m (2019: £49.8m)*

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

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **13. Financing** *(continued)*

#### **(ii) Borrowings** *(continued)*

*Guaranteed bonds due 2039 £303.1m (2019: £303.4m)*

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

*Guaranteed bonds 2041 £445.8m (2019: £nil)*

These bonds are repayable in one amount on 18 April 2041. Interest is charged at 2.75%.

*Guaranteed bonds due 2046 (Class B) £195.0m (2019: £193.3m)*

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

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

*Guaranteed bonds due 2033 £184.1m (2019: £178.9m)*

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

*Guaranteed bonds due 2033 £ (0.8m) (2019: (£0.8m))*

These bonds are repayable in one amount on 29 July 2033. Interest is charged at 3.048% multiplied by an index ratio and the principal amount is increased semi-annually in line with the Retail Price Index (RPI).

*Guaranteed bonds due 2039 £365.2m (2019: £356.4m)*

These bonds are repayable in one amount on 30 December 2039. Interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2041 £60.9m (2019: £59.3m)*

These bonds are repayable in one amount on 30 December 2041. Interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2042 £60.4m (2019: £59.1m)*

These bonds are repayable via an amortisation profile with the final amount due on 22 May 2042. Interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2050 £92.0m (2019: £89.5m)*

These bonds are repayable in one amount on 1 February 2050. Interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2051 £181.9m (2019: £177.1m)*

These bonds are repayable in one amount on 1 August 2051. Interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2054 £120.4m (2019: £117.3m)*

These bonds are repayable in one instalment on 1 February 2054. Interest is charged at 1.75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2056 £181.8m (2019: £177.0m)*

These bonds are repayable in one amount on 1 August 2056. Interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

*Guaranteed bonds due 2058 £141.5m (2019: £137.7m)*

These bonds are repayable in one amount on 1 February 2058. Interest is charged at 1.7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

The group has an early repayment option on all of the above bonds.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **13. Financing** *(continued)*

#### **(ii) Borrowings** *(continued)*

##### **Fixed rate US Dollar bonds**

*\$115.0m guaranteed US Dollar fixed rate bonds due 2021 £94.7m (2019: £87.8m)*

These bonds are repayable in one amount on 13 December 2021. Interest is charged at 3.77%.

*\$40.0m guaranteed US Dollar fixed rate bonds due 2022 £33.0m (2019: £30.5m)*

These bonds are repayable in one amount on 5 January 2022. Interest is charged at 3.77%.

*\$75.0m guaranteed US Dollar fixed rate bonds (Class B) due 2022 £61.8m (2019: £57.2m)*

These bonds are repayable in one amount on 5 January 2022. Interest is charged at 5.07%.

*\$150.0m guaranteed US Dollar fixed rate bonds due 2023 £128.1m (2019: £115.3m)*

These bonds are repayable in one amount on 13 December 2023. Interest is charged at 3.87%.

*\$30.0m guaranteed US Dollar fixed rate bonds due 2024 £25.6m (2019: £23m)*

These bonds are repayable in one amount on 5 January 2024. Interest is charged at 3.87%.

##### **Fixed rate Australian Dollar bonds**

*\$50m guaranteed Australian Dollar (AU Dollar) bonds due 2023 £27.5m (2019: £30.0m)*

These bonds are repayable in one amount on 26 April 2023. Interest is charged at 5.875%.

##### **Bank and Term loans**

(i) Bank loans within long term borrowings relate to:

- Loan facilities of £19.8m with maturities between 1 and 2 years.
- Loan facilities of £45.0m with maturities between 2 and 5 years.
- Loan facilities of £165.8m with maturities in more than 5 years.

(ii) Term loans within long term borrowings relate to:

- An inflation (CPI) linked term facility of £101.0m due March 2029 with interest is charged at 0.4745% multiplied by an index ratio and the principal amount is increased semi-annually in line CPI.
- A fixed rate term facility of £49.9m due July 2031 with interest charged at 2.881%.
- An inflation (Consumer Price Index or CPI) linked term facility of £25.7m due July 2031 with interest charged at 0.8125% multiplied by an index ratio and the principal amount is increased semi-annually in line with CPI.

The long term bank loans stated above include £457.2m (£463.0m loan less £5.8m unamortised issue costs) held at Kelda Finance (No.2) Limited. (2019: £255.1m (£260.0m loan less £4.2m unamortised loan issue costs)).

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 14. Lease Liabilities

	2020 £m
Current	4.1
Non-current	91.2
	<u>95.3</u>

The group does not face a significant liquidity risk with regard to its lease liabilities.

### 15. Trade and other payables

	2020 £m	2019 £m
<b>Amounts falling due within one year:</b>		
Trade payables	94.3	79.2
Capital payables	109.1	102.0
Social security and other taxes	2.8	2.9
Receipts in advance	69.8	61.4
Amounts owed to group companies	18.1	4.5
Interest payable	78.0	73.5
Other payables	17.6	29.6
Corporation tax	-	-
	<u>389.7</u>	<u>353.1</u>
<b>Amounts falling due after more than one year:</b>		
Interest payable	-	3.1
Other payables	3.0	1.9
	<u>3.0</u>	<u>5.0</u>

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value.

Amounts owed to group companies relate to trading balances and are interest free, unsecured and repayable on demand.

### 16. Deferred contributions on depreciated assets

	2020 £m	2019 £m
<b>Amounts falling due in less than one year:</b>		
Contributions to depreciated assets	10.8	11.0
	<u>10.8</u>	<u>11.0</u>
<b>Amounts falling due after more than one year:</b>		
	2020 £m	2019 £m
Contributions to depreciated assets	484.1	455.6
	<u>484.1</u>	<u>455.6</u>

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 17. Deferred income tax liabilities

	Property, plant & equipment £m	Financial instruments £m	Pension obligations £m	R&D credit £m	Total £m
At 1 April 2018	765.7	(341.1)	(0.4)	-	424.2
Charge/(credit) to income statement	(14.2)	(25.9)	0.1	-	(40.0)
Charge to equity	7.0	(4.2)	-	-	2.8
At 1 April 2019	758.5	(371.2)	(0.3)	-	387.0
Transfer	0.8	0.2	(1.0)	-	-
Charge/(credit) to income statement	65.4	(42.9)	(0.5)	(0.5)	21.5
Credit to equity	(18.5)	(0.5)	-	-	(19.0)
At 31 March 2020	<b>806.2</b>	<b>(414.4)</b>	<b>(1.8)</b>	<b>(0.5)</b>	<b>389.5</b>

### 18. Ordinary shares

	Ordinary shares of £1	
	2020 £	2019 £
<b>Issued and fully paid:</b>		
100 (2019: 100) Ordinary shares of £1.00 each	<b>100</b>	100

Following a balance sheet review, on 27 September 2019, £400m of the revaluation reserve was capitalised, the overall effect of this transaction was to transfer £400m from revaluation reserve into the profit and loss reserve.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments

The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Net debt and associated financial instruments comprise the following:

	2020 Less than one year £m	2020 More than one year £m	2020 Total £m	2019 Less than one year £m	2019 More than one year £m	2019 Total £m
Derivative financial assets:						
Fixed to floating interest rate swaps	-	77.8	77.8	-	55.4	55.4
Combined cross currency interest rate swaps	-	88.8	88.8	-	58.5	58.5
Derivative financial instruments on energy contracts	-	-	-	-	3.9	3.9
	-	166.6	166.6	-	117.8	117.8
Financial liabilities:						
Finance lease interest swaps	-	(24.6)	(24.6)	-	(23.2)	(23.2)
Inflation linked swaps	-	(2,099.6)	(2,099.6)	-	(2,067.5)	(2,067.5)
Combined cross currency interest rate swaps	-	(6.7)	(6.7)	-	(4.0)	(4.0)
Derivative financial instrument on energy contracts	-	(3.2)	(3.2)	-	-	-
	-	(2,134.1)	(2,134.1)	-	(2,094.7)	(2,094.7)
Net debt:						
Cash and short term deposits	289.5	-	289.5	51.5	-	51.5
Borrowings	(370.8)	(5,603.8)	(5,974.6)	(862.1)	(4,689.5)	(5,551.6)
	(81.3)	(5,603.8)	(5,685.1)	(810.6)	(4,689.5)	(5,500.1)

Cash and short term deposits were invested with a range of counterparties, either AAA rated sterling liquidity funds or banks with a rating of at least long term A, short term A1/P1, in accordance with approved investment guidelines.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

Derivative financial assets are all from continuing operations.

	2020 £m	2019 £m
Derivative financial liabilities from continuing operations	(2,134.1)	(2,094.7)
	<b>(2,134.1)</b>	<b>(2,094.7)</b>
	2020 £m	2019 £m
Cash from continuing operations	289.5	51.5
	<b>289.5</b>	<b>51.5</b>
	2020 £m	2019 £m
Borrowings from continuing operations	(5,974.6)	(5,551.6)
	<b>(5,974.6)</b>	<b>(5,551.6)</b>

The following table summarises the fair value movements on the derivative instruments:

	2020 £m	Restated 2019 £m
<b>Included in finance costs</b>		
Movement in fair value of inflation linked swaps	(31.5)	(261.8)
Movement in fair value of finance lease interest rate swaps	(4.7)	(1.9)
Movement in fair value of cross currency interest rate swaps	27.5	23.8
Movement of fair value of foreign currency debt	(26.8)	(24.0)
Movement in fair value of fixed to floating interest rate swaps	22.4	10.1
Movement in fair value of debt associated with fixed to floating interest rate swaps	(22.8)	7.9
Movement in fair value of energy derivative	(4.3)	(4.1)
Net fair value movement	<b>(40.2)</b>	<b>(250.0)</b>

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **19. Financial instruments** *(continued)*

#### *Movement in the fair value of cross currency swaps and associated debt*

The group holds a number of combined cross currency interest rate swaps which have been designated in fair value hedge relationships and have been valued at the reporting date at fair value. In line with IFRS 9, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2020. The fair value movement of the combined cross currency interest rate swaps has resulted in £27.5m income (2018/19: £23.8 income) to the profit and loss account. This is offset by the fair value movement in the associated debt of £26.8m expense (2018/19: £24.0m expense). The net impact to the profit and loss account is £0.7m of income (2018/19: £0.2m expense).

#### *Movement in the fair value of fixed to floating interest rate swaps*

The group holds a number of fixed to floating interest rate swaps which are designated as fair value hedge relationships and have been valued at the reporting date at fair value. In line with IFRS 9, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 31 March 2020. The fair value movement of fixed to floating interest rate swaps has resulted in £22.4m income (2018/19: £10.1m income) to the profit and loss account. The fair value movement of associated debt is £22.8m expense (2018/19: £7.9m income). This is a total impact to the profit and loss account of £0.4m of expense (2018/19: £18.0m income).

#### *Movement in the fair value of inflation linked swaps*

Inflation linked swaps have been valued at the reporting date at fair value, which at 31 March 2020 resulted in a £2,153.2m liability (31 March 2019: £2,124.1m liability). This is disclosed within derivative liabilities (note 19) together with day one deferred gains and losses on restructuring transactions of £53.6m asset (31 March 2019: £55.4m asset). This year has seen the liability on the inflation linked swaps increase by £32.1m (year ended 31 March 2019: £313.4m increase). £31.5m fair value cost is disclosed in note 19 (restated 31 March 2019: £261.8m cost). Of this amount, £30.3m relates to the increase in the fair value amount for the year and £1.8m relates to amortisation of day one deferred gains and losses incurred with restructuring transactions. £0.6m relates to the reclassification of net interest receivable and payable on index linked swaps to movement of fair value of inflation linked swaps.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (a) Interest rate risk profile of financial assets and liabilities

The interest rate risk profile of the group's financial assets and liabilities at 31 March 2020 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that London inter-banking lending rate (LIBOR) and indexation remain constant at the year end position.

#### Year ended 31 March 2020

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>Financial liabilities and borrowings</b>							
<b>Fixed rate</b>							
Bank loans	22.6	4.9	-	-	-	-	27.5
Guaranteed bonds	114.6	114.6	530.0	92.8	92.8	3,164.5	4,109.3
US Dollar bonds	10.4	153.4	4.4	116.2	-	-	284.4
Finance lease swaps	2.3	2.3	2.3	2.3	2.3	14.1	25.6
	<u>149.9</u>	<u>275.2</u>	<u>536.7</u>	<u>211.3</u>	<u>95.1</u>	<u>3,178.6</u>	<u>4,446.8</u>
<b>Floating rate</b>							
Inflation linked guaranteed bonds	30.7	30.7	30.8	30.9	30.9	2,173.5	2,327.5
US Dollar bonds	1.3	1.3	1.3	1.3	1.3	83.1	89.6
AU Dollar bonds	2.0	2.0	2.0	34.5	-	-	40.5
Guaranteed bonds	10.4	10.4	10.4	10.4	10.5	314.0	366.1
Bank loans	36.1	114.0	97.2	30.7	120.2	270.4	668.6
Cross currency interest rate swaps	6.7	6.7	6.7	6.1	-	-	26.2
Inflation linked swaps	52.5	148.6	114.6	57.1	73.3	1,627.7	2,073.8
Fair value interest rate swaps	8.7	8.7	8.7	8.7	8.7	45.3	88.8
	<u>148.4</u>	<u>322.4</u>	<u>271.7</u>	<u>179.7</u>	<u>244.9</u>	<u>4,514.0</u>	<u>5,681.1</u>
<b>Non-interest bearing financial liabilities</b>							
Trade payables	94.3	-	-	-	-	-	94.3
Other payables	217.4	3.0	-	-	-	-	220.4
	<u>311.7</u>	<u>3.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>314.7</u>

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (a) Interest rate risk profile of financial assets and liabilities (continued)

Year ended 31 March 2019

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>Financial liabilities and borrowings</b>							
<b>Fixed rate</b>							
Bank loans	23.1	22.6	4.9	-	-	-	50.6
Guaranteed bonds	588.6	96.9	96.9	512.3	75.2	2,282.4	3,652.3
US Dollar bonds	10.4	10.4	153.4	4.4	116.2	-	294.8
Finance lease swaps	2.0	2.0	2.0	2.0	2.0	14.1	24.1
	<u>624.1</u>	<u>131.9</u>	<u>257.2</u>	<u>518.7</u>	<u>193.4</u>	<u>2,296.5</u>	<u>4,021.8</u>
<b>Floating rate</b>							
Inflation linked guaranteed bonds	27.6	27.7	27.7	27.8	27.9	2,059.8	2,198.5
US Dollar bonds	2.4	2.4	2.4	2.4	2.4	150.9	162.9
Guaranteed bonds	12.3	12.4	12.4	12.4	45.0	324.4	418.9
Bank loans	30.6	30.5	92.9	26.6	26.1	266.2	472.9
Combined cross currency interest rate swaps	7.8	7.8	7.8	7.8	7.0	-	38.2
Inflation linked swaps	50.5	97.0	53.2	148.0	112.4	1,619.3	2,080.4
Fair value interest rate swaps	11.2	11.2	11.2	11.2	11.2	67.8	123.8
Finance leases	16.5	5.4	5.5	5.6	5.7	77.9	116.6
	<u>158.9</u>	<u>194.4</u>	<u>213.1</u>	<u>241.8</u>	<u>237.7</u>	<u>4,566.3</u>	<u>5,612.2</u>
<b>Non-interest bearing financial liabilities</b>							
Trade payables	79.2	-	-	-	-	-	79.2
Other payables	200.4	1.9	-	-	-	-	202.3
	<u>279.6</u>	<u>1.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281.5</u>

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (a) Interest rate risk profile of financial assets and liabilities (continued)

The following table provides information about the maturity of the nominal amount and interest rates attached to the swaps held by group as of 31 March 2020 to hedge its interest rate risk:

	Period of maturity			Total £m 31 March 2020
	First year £m 31 March 2020	Second to fifth year £m 31 March 2020	After five years 31 March 2020	
Notional amount (GBP)	-	291.5	430.0	721.5
Average interest rate – fixed to floating interest rate swaps	-	-	2.0%	-
Average interest rate – cross currency interest rate swaps (US Dollar)	-	2.2%	-	-
Average interest rate – cross currency interest rate swaps (AU Dollar)	-	2.0%	-	-

#### (b) Financial risks

##### Capital risk management

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

When monitoring capital risk, the group considers its gearing and the ratio of net debt to RCV.

Centrally managed funds are invested entirely with counterparties whose credit rating is 'A-' or better.

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

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (b) Financial risks (continued)

##### Credit risk

The group has some exposure to credit risk through the holding of receivables on the year-end balance sheet. These can be split into main charges receivables and other trade receivables. The credit risk associated with these balances is heightened in the year ended 31 March 2020 as a result of the Covid-19 pandemic, this is being closely monitored by the Group. These can be split into charges against the provision of water and waste water services and other trade receivables.

For trade receivables, the group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. The group considers that credit-impaired receivables includes receivables that are past two years overdue, because historical experience indicates that these receivables are generally not recoverable.

Risks associated with main charges receivables include limits on the group's ability to restrict supply. However, this does not apply to all receivables. The credit risk is mitigated by introducing payment plans, providing advice and support to customers where this is viable and where it is considered necessary, using legal procedures to reclaim outstanding debts.

Risks associated with other trade receivables are mitigated by credit checks performed on customers before they are supplied, the cessation of supply to customers who are a high credit risk and payment in advance where this is deemed necessary.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The group's objective is to manage risk by minimising the amount of overdue debt at any time. The group manages the risk by timely review of the ageing profile and employing specific staff to monitor and collect these debts. The risk is measured by monitoring of overdue receivables.

In respect of credit risk arising from the other financial assets of the group - which comprise cash, investments in the equity of other companies such as joint ventures and other receivables and financial assets in relation to concession arrangements - the group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

At 31 March, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	2020 £m	Group 2019 £m	2020 £m	Company 2019 £m
Cash and short term deposits (note 13)	289.5	51.5	-	-
Trade and other receivables (note 12)	284.4	250.2	-	-
Investments (note 3)	-	-	778.4	778.4

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### Liquidity risk

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

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

At 31 March 2020 the group had £819.7m of available liquidity (2019: £590.6m) which comprised £289.5m in available cash and short term deposits (2019: £51.5m) and £530.2m of undrawn committed borrowing facilities (2019: £539.1m).

The maturity profile on page 117 represents the forecast future contractual principal and interest cashflows in relation to the group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

#### Market risk

Market risk is the risk that movements in market conditions, including inflation and interest rates will impact materially on the group financial performance. The group's exposure to market risks primarily results from its financial arrangements and the economic return which it is allowed on the RCV.

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

The group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The group's floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The group uses interest rate swap contracts to hedge these exposures where appropriate.

The sensitivity of the group's interest and borrowings to the above risks can be summarised as follows:

	2020 £m	2019 £m
<b>Impact on profit before tax</b>		
1% increase in RPI leading to a decrease in profit	11.0	31.9
1% decrease in RPI leading to an increase in profit	(11.0)	(32.0)
1% increase in LIBOR leading to an increase in profit	25.9	13.4
1% decrease in LIBOR leading to a decrease in profit	(14.7)	(2.6)

#### Hedging of floating rate interest due on borrowings

The group has a number of borrowing facilities with a number of counterparties on which interest is linked to LIBOR. It is therefore exposed to changes in LIBOR which could have a material effect on interest costs from year to year and over time.

In order to manage its exposure to movements in LIBOR, the group has entered into a number of floating rate to inflation linked swaps and also a floating interest rate to fixed interest rate swap.

The nominal value of inflation linked swaps total £1,289.0m and have an average life of 25 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 15 years.

The hedging instruments are not a perfect cash flow hedge against changes in LIBOR as the dates and amounts of the swaps vary in some cases to the borrowings which they hedge.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **19. Financial instruments** *(continued)*

#### **(c) Fair values of financial assets and financial liabilities**

The information set out below provides information about how the group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities or where the directors consider the carrying amounts of the financial instruments to approximate to their fair value;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (c) Fair values of financial assets and financial liabilities (continued)

**Fair value of the group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
	2020	2019				
1. Interest rate swaps, combined cross-currency swaps, inflation linked swaps, fixed rate bonds and inflation linked bonds	Assets: £166.6m Liabilities: £1,682.3m	Assets: £117.8m Liabilities: £1,532.6m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counter-party credit risk.		
2) Interest rate swaps, inflation linked swaps	Assets: £nil Liabilities: £1,366.4m	Assets: £nil Liabilities: £1,427.6m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	<ul style="list-style-type: none"> <li>Counter-party cost of funding assumption.</li> <li>Assumptions relating to long-term credit beyond observable curves</li> <li>Recovery rates</li> </ul>	Unobservable inputs contribute on average to 24.4% of the fair value of level 3 instruments, equaling a total of £526.4m of the fair value included in the financial statements. A ten basis point shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £167.1m higher or lower.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (c) Fair values of financial assets and financial liabilities (continued)

The following table provides the fair values of the group's financial assets and liabilities at 31 March.

	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m
<b>Financial assets designated as Fair Value Through Profit and Loss</b>						
Fixed to floating interest rate swap assets	-	77.8	-	-	55.4	-
Cross-currency interest rate swaps	-	88.8	-	-	58.5	-
Energy derivative	-	(0.4)	-	-	3.9	-
<b>Financial liabilities designated as Fair Value Through Profit and Loss</b>						
Fixed rate interest rate swaps in respect of finance leases	-	(24.6)	-	-	(23.2)	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	-	(6.7)	-	-	(4.0)	-
Fixed rate US Dollar bonds	-	(343.2)	-	-	(313.8)	-
Fixed rate AU Dollar bonds	-	(27.5)	-	-	(30.0)	-
Fixed rate Sterling bonds	-	(493.5)	-	-	(470.4)	-
Inflation linked swaps	-	(786.8)	(1,366.4)	-	(691.2)	(1,427.6)
<b>Designated as Fair Value Through Other Comprehensive Income</b>						
Energy derivative	-	(2.8)	-	-	-	-
<b>Financial liabilities held at amortised cost</b>						
Fixed rate sterling bonds	(1,755.3)	(1,124.1)	-	(2,332.1)	(416.5)	-
Inflation linked sterling bonds	(444.0)	(1,195.8)	-	(451.5)	(1,468.7)	-
Floating rate sterling bonds	-	(74.4)	-	-	(74.4)	-
Obligations under finance leases	-	-	-	(102.0)	-	-
Other bank loans and overdrafts	(1,235.4)	-	-	(1,068.9)	-	-

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (c) Fair values of financial assets and financial liabilities (continued)

##### Reconciliation of Level 3 fair value measurements of financial liabilities:

	RPI swaps £m	Total £m
Balance at 1 April 2019	1,427.6	1,427.6
Total unrealised gains or losses:		
- included within finance costs in the profit or loss	(32.6)	(32.6)
Transfers from Level 3	(28.6)	(28.6)
<b>Balance at 31 March 2020</b>	<b>1,366.4</b>	<b>1,366.4</b>

Valuations that are classed as level 3 for the inflation linked swaps are defined by the proportion of the funding and counter-party adjustment being greater than 10% of the total mark to market valuation of the instrument.

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2020:

	Reflected in profit or loss	
	Favorable change £m	Unfavorable change £m
Level 3 financial instrument assumptions:		
10 basis point change in counter-party funding assumption	45.7	(45.7)
10 basis point change to credit curve assumption	31.6	(31.6)
10 basis point change in recovery rate assumption	89.8	(89.8)

#### Inflation linked swaps

The group holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cash flows associated with these inflation linked swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate (see note 7 for further details).

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within financial liabilities. The RPI bullet accrued to 31 March 2020 was £223.3m (2019: £184.5m) which has been reduced by £69.3m (2019: £57.2m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £2,099.6m (2019: £2,067.5m liability) at the year end date. Included in this amount, £154.0m (2019: £127.3m) represents the discounted value of the RPI bullet accrued to 31 March 2020.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **19. Financial instruments** *(continued)*

#### **(c) Fair values of financial assets and financial liabilities** *(continued)*

The valuation model used by the group to determine the fair value of the inflation linked swap portfolio as at 31 March 2020 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long-term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit valuation adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £541.3m (2019: £543.2m).

The fair value of net derivative financial liabilities of £1,967.5m would be £45.7m (2019: £45.7m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,967.5m would be £31.6m (2019: £32.1m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,967.5m would be £89.8m (2019: £89.3m) higher or lower were the recovery rate assumption to change by ten basis points. Disclosing an appropriate sensitivity of fair values could vary based on what is reasonably possible in the market but a change of ten basis points demonstrates the level of movement in the assumption which results in a material difference, this can be scaled up and is consistent with sensitivities reported previously.

#### **Interest rate swaps**

The group entered into several multi-currency interest rate swap transactions involving five Fixed US Dollar bonds and one AU Dollar bond, referred to as cross currency interest rate swaps.

As detailed in this note above, the net impact of the fair value movement on the swaps resulted in a net income of £0.7m (2019: £0.2m expense) to the profit and loss account. This impact is split out as follows.

The fair value of cross currency interest rate swaps resulted in an income of £27.5m being recognised in the income statement (2019: £23.8m income). This is offset by the change in fair value of the associated bonds resulting in an expense of £26.8m (2019: £24.0m expense). Of the change in fair value of the associated bonds, £29.3m expense (2019: £23.6m expense) relates to Fixed US Dollar bonds and £2.5m income (2019: £0.4m expense) relates to the AU Dollar bonds.

The group holds three fixed to floating interest rate swaps, which mature in 2029 and 2033. The movement in the fair value of the swaps resulted in income of £22.4m recognised in the income statement (2019: £10.1m income). There is a change in fair value of the associated bonds of £22.8m expense (2019: £7.9m income). The expense relating to the fair value of the individual associated bonds is as follows. £12.2m of income (2019: £11.7m of income) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £274.7m (2019: £276.8m) at 31 March 2020. £6.3m (2019: £2.0m charge) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £11.8m (2019: £106.8m) at 31 March 2020. The remaining £4.3m change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £107.0m (2019: £101.9m) at 31 March 2020.

Certain derivative financial assets of £84.6m (2019: £59.4m) under master nettings agreements are available to be offset against derivative financial liabilities but have not been offset on the balance sheet. Cash collateral received of £14.2m (2019: £12.7m) has not been offset against the associated derivative financial assets on the balance sheet. Net derivative assets are £67.8m (2019: £45.7m) and net derivative liabilities are £2,218.7m (2019: £2,035.3m) after adjusting for amounts available for offset, but not offset on the balance sheet.

The group holds two floating to fixed interest rate swaps in relation to floating rate finance leases. These have a total nominal value of £45m. The movements in the fair value of floating to fixed rate swaps in respect of finance leases resulted in an expense of £4.7m recognised in the income statement (2019: £1.9m charge).

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **19. Financial instruments** *(continued)*

#### **(d) Hedges**

The group's policy is to hedge interest rate risk within approved board policies and guidelines.

Interest rate swaps are used to manage interest rate exposure under a hedging strategy that requires that Yorkshire Water Services Limited and its subsidiaries to maintain at all times at least 85% of its total outstanding debt as index linked obligations or fixed rate obligations either directly or via hedges. At the financial year end the proportion was 105.1% (2019: 100.5%). At the group level the proportion was 97.3% (2019: 95.8%) at the financial year end.

#### **Hedging of interest due under finance leases**

The group has a number of finance leases with a number of counterparties lasting from inception to 21 February 2043.

#### **Fair value hedges**

Cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The group has recognised an asset of £88.8m (2019: £58.5m) for the mark to market gain in the fair value of the cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as the instrument was measured as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. Hedge effectiveness is assessed on an ongoing basis and evaluates whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, this is done through evaluating the economic relationship between hedged item and instrument, the effectiveness of which can be reliably measured. As, during the year and since inception, there was an effective economic relationship in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value loss of £29.3m (2019: £23.5m loss) which was included in the income statement at the same time that the fair value of the cross currency interest rate swap was included in the income statement.

The group has a £33.8m cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an AU Dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. The hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The group has made an adjustment of £2.8m (2019: £4.0m) for the mark to market loss in the fair value of the cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £2.5m (2019: £0.3m gain) which was included in the income statement at the same time that the fair value of the cross currency interest rate swap was included in the income statement.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **19. Financial instruments** *(continued)*

#### **d) Hedges** *(continued)*

The group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £38.5m (2019: £26.7m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £12.2m (2019: £11.7m gain) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £23.3m (2019: £16.8m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £6.3m (2019: £2.0m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements.

The group has recognised an asset of £16.0m (2019: £11.9m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as finance income as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £4.3m (2019: £1.8m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

#### **Cashflow hedges**

##### *Energy derivatives*

The group holds UK electricity swaps, which help hedge the company's exposure to energy price risk by exchanging the average day ahead baseload index price of electricity in a given month for a fixed price. These are designated as cash flow hedges and hedge accounting has been applied. The loss of £2.8m (2018/19: £nil) in the derivatives from £3.9m assets to £3.2m liabilities (2018/19: asset movement from £8.0m to £3.9m) has been recognised in other comprehensive income. The remaining £4.3m (2018/19: £4.1m) has been recognised in the profit and loss account.

#### **Foreign currency risk management**

The group has a number of long term interest bearing liabilities denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising combined cross currency interest rate swaps.

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### (d) Hedges (continued)

##### Impact of hedging instruments designated in hedging relationships

The impact of hedging instruments designated in hedging relationships as of 31 March 2020 on the group's consolidated balance sheet is as follows:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
	£m	Assets £m	Liabilities £m	31 March 2020	£m
	31 March 2020	31 March 2020	31 March 2020		31 March 2020
<b>Fair value hedges</b>					
Fixed to floating interest rate swaps	430.0	77.8	-	Derivative financial asset	22.4
Cross currency interest rate swaps (US Dollar)	257.7	88.8	-	Derivative financial asset	30.3
Cross currency interest rate swaps (AU Dollar)	33.8	-	(6.7)	Derivative financial liability	(2.7)

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
	£m	Assets £m	Liabilities £m	31 March 2019	£m
	31 March 2019	31 March 2019	31 March 2019		31 March 2019
<b>Fair value hedges</b>					
Fixed to floating interest rate swaps	430.0	55.4	-	Derivative financial asset	10.1
Cross currency interest rate swaps (US Dollar)	257.7	58.5	-	Derivative financial asset	23.5
Cross currency interest rate swaps (AU Dollar)	33.8	-	(4.0)	Derivative financial liability	0.3

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### d) Hedges (continued)

##### Impact of hedged items designated in hedging relationships

The impact of hedged items designated in hedging relationships as of 31 March 2020, on the group's consolidated balance sheet is as follows:

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated balance sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve
	Assets £m 31 March 2020	Liabilities £m 31 March 2020	Assets £m 31 March 2020	Liabilities £m 31 March 2020	Assets £m 31 March 2020	Liabilities £m 31 March 2020	£m 31 March 2020	£m 31 March 2020	£m 31 March 2020
<b>Fair value hedges</b>									
Interest rate risk on fixed to floating swaps	-	(343.2)	-	(66.3)	-	-	Borrowings	(22.8)	-
Interest rate risk on cross currency interest rate swaps (US Dollar)	-	(257.1)	-	(86.0)	-	-	Borrowings	(29.3)	-
Interest rate risk on cross currency interest rate swaps (AU Dollar)		(27.5)	-	6.3	-	-	Borrowings	2.5	-

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### d) Hedges (continued)

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated balance sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve
	Assets £m 31 March 2019	Liabilities £m 31 March 2019	Assets £m 31 March 2019	Liabilities £m 31 March 2019	Assets £m 31 March 2019	Liabilities £m 31 March 2019	£m 31 March 2019	£m 31 March 2019	£m 31 March 2019
<b>Fair value hedges</b>									
Interest rate risk on fixed to floating swaps	-	(426.9)	-	(43.5)	-	-	Borrowings	7.9	-
Interest rate risk on cross currency interest rate swaps (US Dollar)	-	(257.1)	-	(56.6)	-	-	Borrowings	(23.6)	-
Interest rate risk on cross currency interest rate swaps (AU Dollar)		(33.8)	-	3.8	-	-	Borrowings	(0.4)	-

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 19. Financial instruments (continued)

#### e) Deferred 'day one' gains (losses)

Several transactions have been completed to restructure the inflation linked swaps. These have resulted in a 'day one' loss/gain adjustments, which are deferred and amortised over the remaining life of the swaps. The following table details the movements and amounts of deferred 'day one' gains (losses) included in the fair value of the swaps held at the balance sheet date:

	2020 £m	2019 £m
Balance at 1 April	(55.4)	(28.6)
Deferred 'day one' gains (losses) on new derivatives	-	(28.7)
Deferred 'day one' gains (losses) realised during the year	1.7	1.9
<b>Balance at 31 March</b>	<b>(53.7)</b>	<b>(55.4)</b>

### 20. Additional cash flow information

Analysis of movement in net debt:

	At 31 March 2018 £m	Non cash movements £m	Cash movements £m	At 31 March 2019 £m	Non cash movements £m	Cash movements £m	At 31 March 2020 £m
Cash and cash equivalents	41.2	-	10.3	51.5	-	238.0	289.5
Debt due within one year	(267.3)	-	(580.6)	(847.9)	237.7	239.4	(370.8)
Finance leases due within one year	(12.6)	-	(1.6)	(14.2)	14.2	-	-
	(279.9)	-	(582.2)	(862.1)	251.9	239.4	(370.8)
Debt due after one year	(4,954.9)	89.8	263.4	(4,601.7)	(332.5)	(669.6)	(5,603.8)
Finance leases due after one year	(100.2)	-	12.4	(87.8)	87.8	-	-
	(5,055.1)	89.8	275.8	(4,689.5)	(244.7)	(669.6)	(5,603.8)
Net debt relating to continuing activities	(5,293.8)	89.8	(296.1)	(5,500.1)	7.2	(192.2)	(5,685.1)

Net debt does not include financial liabilities which are not considered to be part of the group's borrowings.

## **Kelda Finance (No.1) Limited**

### **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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#### **20. Additional cash flow information** *(continued)*

Cash generated from continuing operations as noted in the group cash flow statement can be derived as follows:

	<b>2020</b>	2019
	<b>£m</b>	£m
Total loss for the year	<b>(22.7)</b>	(145.8)
Tax charge/(credit)	<b>31.9</b>	(25.9)
Finance income	<b>(59.8)</b>	(59.6)
Finance costs	<b>222.6</b>	211.9
Net fair value movements (non cash) on finance income and costs	<b>40.2</b>	250.0
Depreciation	<b>313.1</b>	294.4
Amortisation of intangibles	<b>15.1</b>	11.1
Profit on disposal of operations	<b>(3.4)</b>	-
Profit on disposal of fixed assets	<b>(2.1)</b>	(2.9)
Impairment of property, plant and equipment	<b>-</b>	0.3
Increase in inventories	<b>(0.4)</b>	(0.1)
Increase in trade and other receivables	<b>(27.8)</b>	(9.4)
Decrease/(increase) in trade and other payables	<b>25.6</b>	(3.0)
Amortisation of capital grants	<b>(10.9)</b>	(10.3)
Capital contributions	<b>25.6</b>	27.3
	<hr/>	<hr/>
<b>Cash generated from continuing operations</b>	<b>547.0</b>	538.0
	<hr/>	<hr/>

# Kelda Finance (No.1) Limited

## Notes to the consolidated financial statements (continued)

for the year ended 31 March 2020

### 21. Commitments

	2020 £m	2019 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	<b>351.4</b>	<b>364.3</b>

The long-term investment programme for the group, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014. £13.4m as at 31 March 2020 (31 March 2019: £14.7m) of the above capital commitments relate to intangibles (software).

### 22. Related parties

Compensation of key management personnel (including directors).

	2020 £m	2019 £m
Short-term benefits	<b>3.5</b>	<b>3.6</b>

### 23. Subsidiary companies

The company, as an individual entity, has the following investments in subsidiaries, associated and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
<b>Water services</b>				
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%
	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
<b>Holding and finance companies</b>				
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) Plc	England & Wales	UK	Ordinary	100%
Yorkshire Water Finance Plc	England & Wales	UK	Ordinary	100%
Southern Pennines Rural Regeneration Company <sup>1</sup>	England & Wales	UK	Limited by guarantee	100%

<sup>1</sup> Registered office address: Canal & Visitors Centre Butler's Wharf, New Road, Hebden Bridge, England, HX7 8AF.

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **24. Ultimate controlling party**

The company's immediate parent company is Kelda Group Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK.

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.

### **25. Contingent liabilities**

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical search fees that they have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The claim has been brought pursuant to the Environmental Information Regulations ("EIR") 2004. The PSC as the claimants in this matter state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee. Yorkshire Water has adopted the same stance as the rest of the sector in relation to this claim in disagreeing with the interpretation taken on behalf of the PSC's. Two formal sets of proceedings were served on Yorkshire Water on 17 April 2020 on behalf of a number of PSC's and it has been indicated that a further 24 PSC's will be added to the ongoing proceedings.

At this stage the total value to which the claims could amount, or the timing of any cash flow is not known. As a result of these claims now being formally lodged, a view is currently being taken by Safemove as to the potential value of the claim faced by Yorkshire Water but it is not accepted that Yorkshire Water is liable. The combined claims (against all companies included in the sector) are stated to be in excess of £100m based on the case as currently pleaded. A joint industry approach is being taken to the claims made against each company in the sector.

### **26. Post balance sheet event**

In April 2020, Yorkshire Water purchased Livingstone House in Leeds for £20.0m. The existing lease for the building, which was due to terminate in 2025 and having total remaining lease commitments of £7.5m, has been superseded by a new agreement for ground rent totalling £11.9m, payable in equal annual instalments over 132 years.

The Covid-19 global pandemic and resulting economic impact was ongoing at the reporting date and is expected to have material impacts in the 2020/21 financial year. Whilst we expect the ongoing situation to impact both our household and non household markets, given the uncertainties in the scope, timing and length of the impact at the time of publication, we cannot give any accurate or reliable estimates of impacts in this report. The assessment of the impact of Covid-19 on going concern is discussed in note 2.

On 18 March 2020 Yorkshire Water, Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited launched a Security trust and Intercreditor Deed (STID) process to introduce new Interest Cover Ratios (ICRs) to the common Finance Documents to reflect changes in Ofwat's approach to revenue reprofiling for the purposes of bill smoothing. At the same time existing ICR covenants were to be reset to benign levels. On 20 April 2020 the companies announced that the Majority Creditors had voted in favour of the proposed changes.

On 3 July 2020, the company executed an amendment to the confirmed cashflows of seven swaps, with a total notional value of £225.5m, to match more appropriately its profiles of revenues, collections and net interest costs during AMP7, which are likely to change as a result of the Covid-19 pandemic. This amendment resulted in a rephasing of receipts from future years out to 2027/28, such that net interest costs will reduce by £10.6m in 2020/21. In addition, the executed amendment allows the choice of rephasing further future receipts, totalling £11.8m into 2020/21 and £23.2m into 2021/22.

## **Kelda Finance (No.1) Limited**

### **Notes to the consolidated financial statements** *(continued)*

for the year ended 31 March 2020

#### **27. Adoption of new accounting standards**

For the year ended 31 March 2020, the group applied, for the first time, IFRS 16 Leases. The changes in accounting policies as a result are detailed out in note 2. The comparative information presented has not been restated in line the modified retrospective application approach.

The effects of adopting IFRS 16 as at 1 April 2019 are as follows:

- a) Right of use assets of £61.0m were recognised and presented separately on the balance sheet. This includes the lease assets recognised previously under finance leases of £51.4m that were reclassified from property, plant and equipment.
- b) Additional lease liabilities totalling £95.3m were recognised separately on the balance sheet. This includes £85.6m previously recognised as finance leases that were reclassified from borrowings.

The effect of adopting IFRS 16 as at 1 April 2019 is as follows:

	Year ended 31 March 2019 As previously reported £m	Transition adjustments £m	Adjusted balance sheet at 1 April 2019 £m
<b>Assets</b>			
Right of use assets	-	61.0	61.0
Property, plant and equipment	7,850.0	(51.4)	7,798.6
<b>Liabilities</b>			
Lease liabilities - current	-	(4.1)	(4.1)
Lease liabilities – non-current	-	(91.2)	(91.2)
Borrowings - current	(862.1)	4.1	(858.0)
Borrowings – non-current	(4,689.5)	81.5	(4,608.0)
<b>Total adjustment to equity:</b>			
Retained profits	375.3	-	375.3

The lease liabilities as at 1 April 2019 can be reconciled to the operating lease commitments as at 31 March 2019 as follows:

	£m
Operating lease commitments as at 31 March 2019	10.6
Effect of discounting	(0.6)
Less: Commitments relating to short-term and low-value leases	(1.6)
Add: Adjustments to lease payments not recognised at 31 March 2019	2.9
Lease liabilities previously recognised as operating leases as at 1 April 2019	11.3

# **Kelda Finance (No.1) Limited**

## **Notes to the consolidated financial statements** *(continued)*

*for the year ended 31 March 2020*

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### **27. Adoption of new accounting standards** *(continued)*

#### **Amounts recognised in the balance sheet and income statement**

	Right of use assets			Total	Lease liabilities
	Land and buildings	Infrastructure assets	Plant and equipment		
	£m	£m	£m	£m	£m
As at 1 April 2019	19.3	37.3	9.4	66.0	(97.1)
Additions	-	-	-	-	-
Depreciation expense	(1.8)	(1.1)	(2.1)	(5.0)	-
Interest expense	-	-	-	-	(0.2)
Payments	-	-	-	-	2.0
At 31 March 2020	17.5	36.2	7.3	61.0	(95.3)

**Kelda Finance (No.1) Limited**  
**Company Balance Sheet**  
as at 31 March 2020

	Notes	2020 £m	2019 £m
<b>Fixed assets</b>			
Investments	3	778.4	778.4
<b>Total assets less current liabilities</b>		<b>778.4</b>	<b>778.4</b>
<b>Net assets</b>		<b>778.4</b>	<b>778.4</b>
<b>Capital and reserves</b>			
Called up share capital	4	-	-
Profit and loss account		778.4	778.4
<b>Total shareholders' funds</b>		<b>778.4</b>	<b>778.4</b>

The profit attributable to the parent company was £74.4m (2019: £67.5m). Advantage has been taken of the exemption available under section 408 of the Companies Act 2006 not to present a profit and loss account for the company alone.

The financial statements on pages 136 to 139 were approved by the board of directors on 28 July 2020 and signed on its behalf by:



**E M Barber**  
Director

28 July 2020  
Kelda Finance (No.1) Limited  
Registered number: 08066326

Registered Address:  
Western House  
Halifax Road  
Bradford  
West Yorkshire  
BD6 2SZ

**Kelda Finance (No.1) Limited**  
**Company Statement of Changes in Equity**  
*for the year ended 31 March 2020*

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	Notes	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2018		778.4	778.4
Profit for the year		67.5	67.5
Dividends paid	2	(67.5)	(67.5)
		<hr/>	<hr/>
At 31 March 2019		778.4	778.4
Profit for the year		74.4	74.4
Dividends paid	2	(74.4)	(74.4)
		<hr/>	<hr/>
<b>At 31 March 2020</b>		<b>778.4</b>	<b>778.4</b>
		<hr/> <hr/>	<hr/> <hr/>

During the year, dividends of £74.4m, £0.74m per share (2019: £67.5m, £0.68m) were declared and cash settled with the immediate parent company.

# **Kelda Finance (No.1) Limited**

## **Notes to the company financial statements**

*for the year ended 31 March 2020*

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### **1. Company accounting policies**

#### **Basis of accounting**

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from its registered office address: 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:

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The going concern basis has been applied in these financial statements. The accounting policies shown below have been applied consistently throughout the current and prior year.

#### **Measurement convention**

The company's financial statements are prepared on a going concern basis, under the historical cost convention.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

#### **Dividends receivable**

Dividends receivable are recognised when the shareholders' right to receive the revenue is established.

#### **Dividends payable**

Interim dividends payable are recognised on payment of the dividend. Final dividends payable are recognised on approval by shareholders in the annual general meeting.

#### **Share capital**

Ordinary shares are classified as equity.

# **Kelda Finance (No.1) Limited**

## **Notes to the company financial statements** *(continued)*

for the year ended 31 March 2020

### **2. Dividends**

	<b>2020</b>	2019
	<b>£m</b>	£m
Dividends of £0.74m per share paid in the year (2019: £0.68m)	<b>74.4</b>	67.5

### **3. Investments**

	<b>Shares in Group undertakings £m</b>
Cost at 31 March 2019 and 31 March 2020	<b>778.4</b>

### **4. Called up share capital**

	<b>2020</b>	2019
	<b>£</b>	£
Issued and fully paid: 100 Ordinary shares of £1.00 each	<b>100</b>	100

### **5. Other information**

The company had no employees at 31 March 2020 (2019: none).

Details of directors' emoluments are set out in the directors' remuneration report of the group. No elements related specifically to their work in the company.

Disclosure notes relating to share capital and auditors' remuneration are included within the financial statements of the group.

Auditors' remuneration has been borne by Kelda Group Limited.

### **6. Ultimate controlling party**

The company's immediate parent company is Kelda Group Limited. The company's ultimate parent company is Kelda Holdings Limited, a company incorporated in Jersey and resident for tax in the UK. The directors consider that 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.