Kelda Eurobond Co Limited

Annual Report and Financial Statements

Registered number 06433768

For the year ended 31 March 2021

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Contents

Our Business

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

Yorkshire Water Services Limited (Yorkshire Water)
Yorkshire Water is the principal UK subsidiary of the group, providing water and 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 presented as the 'UK Regulated Water Services' segment.

Business strategy: Yorkshire Water provide some of life's most essential services to the people and businesses of Yorkshire, playing a key role in the region's health, wellbeing, and prosperity. We do this by supplying water and wastewater services and being custodians of essential infrastructure and the natural environment.

While Yorkshire Water is a highly regulated business, the strategy 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 continue to work hard to support the region's economic and social recovery.

Further details of Yorkshire Water's business strategy are detailed within this Strategic Report.

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

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

Keyland Developments Limited (Keyland)
Keyland adds value to the group's surplus property assets, usually by obtaining planning permission for the most beneficial use and selling into the market or undertaking development in partnership with others. Keyland is also progressing a number of Planning Promotion Agreements with third parties. The results of Keyland include the group's share of its associates and joint ventures.

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

Three Sixty Water Limited (TSW) and its subsidiaries (collectively TSWG)
TSWG has specialised in services to the non-household retail (NHHR) sector either by directly providing NHHR water and wastewater services or providing support services to entities which in turn offer NHHR water and wastewater services. These services were historically provided to Yorkshire Water.

As part of the group's strategy to focus on wholesale and household retail activities, the sale of the Yorkshire Water NHHR customer base took place on the 30 September 2019 to Scottish Water Business Stream Limited (Scotland's largest non-domestic water supplier). Under the Transitional Services Agreement (TSA) Business Stream have retained TSWG to continue to support the delivery of NHHR services to their Yorkshire customers until 30 September 2021. At this point a six-month migration period to 31 March 2022 will see all customer support services transfer to Business Stream operations.

Kelda Transport Management (KTM)

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

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

Statement on non-financial information

Eurobond has complied with the requirements of S414CB of the Companies Act 2006 by including certain non-financial information within the Strategic Report. This can be found as follows:

Our business model is shown later in the Strategic Report.

Information regarding the following matters, including a description of relevant policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found as follows:

Environmental matters in our *Love our Environment* section;

Employees in our *Putting People First* section;

Social matters in *Our business strategy for Yorkshire Water* section;

Respect for human rights *Putting People First* section; and

Anti-corruption and anti-bribery matters *Putting People First* section.

Where principal risks have been identified in relation to any of the matters listed above, these can be found in our principal risks section, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.

All our key performance indicators (KPIs), including those non-financial indicators, are reported and discussed within the Strategic Report.

The Financial Performance section includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Our business strategy for Yorkshire Water

We provide some of life's most essential services to the people and businesses of Yorkshire, playing a key role in the region's health, wellbeing, and prosperity. We do this by supplying water and wastewater services and being custodians of essential infrastructure and the natural environment. Water companies are unique institutions, and the history of water and sewage services has seen a number of hybrid structures sitting between the public and private sectors. Although ownership structures have varied over time, the use of private capital to fund investment has been a constant. Yorkshire Water sees itself as a public service provider first and foremost. Public service ethos runs deep in our culture and is matched by environmental commitment. We have a 30-year track record of delivering privately financed investment for public and environmental good. A commercial focus means that investment is delivered efficiently and effectively and provides best value for customers.

The bills customers pay do more than just cover the cost of the direct service they receive in their homes and businesses. They contribute to Yorkshire's resilience from flooding and they help to improve the quality of our rivers. They mean that large parts of our upland landscapes can be managed sustainably, and over time they will help us invest to combat the impact of climate change. The impact of climate change is considered further in our *Love our Environment* section.

Asset management period

Yorkshire Water, along with the other water companies in England and Wales, operates 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. The planning process is known as the 'Price Review'. These five-year plans are set in the long-term context of a 25-year strategic direction, our 'long-term strategy', which we are in the process of reviewing.

Within our five-year plan is the setting and agreeing with our Regulator and customers the performance standards that they expect of us. These form the basis of our PCs. Some of these PCS are so important to service standards that the attract a penalty for lower than expected performances, or a reward for higher than expected performance. These are the ODIs.

This year we have entered a new five-year period known as AMP7. This started on 1 April 2020 and runs until 31 March 2025. Our AMP7 plan includes 44 Regulatory PCs, themed around our 'Five Big Goals'. Our Five Big Goals are considered in further detail in our long-term strategy section. We report our progress and performance against key PCs, along with other key financial and operational KPIs, through the rest of this Strategic Report. For detailed outcomes on all PCs please see our APR, which can be found at: https://www.yorkshirewater.com/reports

As an outcome of our 2019 regulatory determination, we took the decision not to accept the FD, but to refer our AMP7 plan to the CMA. This work concluded in March 2021.

Key findings were as follows:

- Increased wholesale WACC from 2.92% to 3.12%, which allowed the removal of accelerated revenues (on a real CPIH basis);
- Allowing additional investment in Hull which will enable Living with Water to act as an exemplar public private partnership improving the city's resilience;
- Accepting that significant shift in leakage requires investment;
- Updating based cost to the latest available evidence (2019/20); and
- Removing the gearing sharing mechanism.

The CMA has retained much of Ofwat's methodology, and the determination remains challenging to deliver. It is clear we'll need to maintain our focus on cost efficiency which is already at the heart of our business plan. The CMA process has also highlighted that in a number of areas of our operations we are not as efficient as we should be, and we will continue to improve our performance to match the better companies in the sector. Our strategy, to be published later in the year, will set out the long-term improvements we need to make, and the ways in which can achieve them. Additionally, we have completed a strategic business review for AMP7, and a resulting improvement plan that will drive both cost efficiency and performance.

Our long-term strategy

We published our Strategic Direction Statement (SDS), called #notjustwater in August 2018. We are now in the process of reviewing and updating this. In developing #notjustwater, we carried out extensive research, working with customers and stakeholders in lots of different ways including research projects, monthly customer trackers, focus groups, round table events with our directors, and stakeholder briefing sessions. This engagement, alongside our regular interactions with customers and stakeholders, gave us much improved insight into the diverse and changing needs of our customers and stakeholders.

To support delivery of the targets we set in the SDS, we are updating our long-term business strategy which will detail the actions we will need to take. In updating our long-term strategy, we are building on the extensive customer insight gained through development of our SDS, and continue to update our understanding of what is important to our customers and stakeholders. We continue to engage through our day-to-day conversations with customers and stakeholders via our Online Community, primary research programme, analysis of feedback provided by customers in our daily operational contacts with them, and our ongoing engagement with our regional stakeholders. Through these conversations we are able to better understand the diverse needs of our customers, how customers would like to access our services in a way that suits them, the services which are a priority to them, and at a price that is affordable both now and in the future.

In 2020, as a precursor to the review of our long-term strategy, we went through an extensive and inclusive process to re-determine our corporate purpose and vision. We also set out to underpin the purpose with a set of behaviours which translates that purpose into the way in which our colleagues go about their day-to-day business. We co-created this purpose with colleagues, customers and stakeholders through a series of workshops and interviews.

Our purpose is "To play water's role in making Yorkshire a great place to live, to work and to visit". What this means to us is that, today, every day and forever it's our job to make sure that everyone in Yorkshire has the water they need for their busy lives. And, when they've used it, it's our job to take it away and return it safely back to Yorkshire's environment. We are developing our vision and behaviours and understand that people are one of the key enablers to delivering our service. We recognise this in our vision 'To put people at the heart of everything we do'.

Water is one of life's most basic essentials and we are concerned about taking care of it in the right way for everyone, all of the time. But how we do that really matters; the resources we use and recycle, the way we look after land, our broader support to local communities and the partnerships we develop, will make a massive difference to getting it right for Yorkshire's people and places.

Our ability to grow value sustainably in future will also depend in large part on our purpose and how we translate this into action. Purpose will form a growing part of our regulatory contract, and a strong purpose will likely lead to better regulatory outcomes. It will give rise to extended service and growth opportunities. Being able to demonstrate shared purpose with potential partners will be an important part of the delivery of the innovative solutions which will become ever more important to us. Access to environmental, social and corporate governance (ESG) finance is predicated not just on showing purpose, but being able to verify how it is delivered and by determining the outcomes and impact it achieves. We also know that increasingly the best talent wants to work for an organisation with values in line with their own, which behaves honourably and in line with those values.

More information on how we developed our purpose, vision and behaviours is available in our Governance section.

Our reviewed and updated strategy will set out the activities we will undertake to deliver both our essential water services, and the broader aspects of our purpose, with the aim of being a long-term leading performer in our sector.

We aim to do this by: alignment to Yorkshire to support sustainable and inclusive growth; facilitating our people to be their best; working in partnership with stakeholders and communities; and utilising markets and innovation. We will support our customers and communities to hold us to account through transparency around how we are performing and about our impact on Yorkshire.

The main function of our organisational strategy is to translate our purpose into action. It will build on #notjustwater, and take account of global, national, and regional considerations that impact on the operational context of Yorkshire Water both now and in the future. In line with our purpose, it will set out activities, and establish programmes of work that not only deliver our services really well, supporting delivery of the Five Big Goals, but deliver our services in a sustainable way, protecting both the future of the organisation and enhancing regional resilience. Our Five Big Goals are detailed later in this section, and form the main structure of this Strategic Report.

The strategy will grow value for Yorkshire Water and Yorkshire's citizens by innovating to keep costs low and seeking opportunities to extend services and grow public value. It will seek to set out a framework by which we can measure progress towards our purpose. This framework will identify how activities will be prioritised and optimised to achieve the Five Big Goals and wider public value objectives. It will require the right blend of activities to deliver service, resilience, and value objectives and thus ensure we are fair to customers and investors now and in the future.

Purpose led decision making

Central to our strategy is the recognition that we are an organisation 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 and being open about our performance. 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.

The Six Capitals approach, for which we are widely recognised in the industry, is designed to help organisations become more sustainable and resilient by considering value in the broadest sense. Capital is often thought of only as money, but in fact describes any resource or asset that stores or provides value to people. The Six Capitals are important to us as they help us measure the total value we deliver to Yorkshire. The Six Capitals are summarised below.

The Six Capitals approach supports the reporting of progress towards our purpose, ensuring that purpose is at the heart of our day-to-day decision making and provides a framework in which we can clearly communicate the impact we have on Yorkshire with customers and stakeholders. In the future, increased transparency and clarity could be achieved by alignment of our reporting through the creation of one purpose-driven organisational assessment across the Annual Report and Financial Statements (ARFS), Annual Performance Report (APR), and 'Our Contribution to Yorkshire' - which measures our impact across aspects of the Six Capitals and our evolving public value measures.

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, and enrich the evidence base that supports our decision making. Some examples of our latest progress developing and deploying the Six Capitals approach include:

- Updating and expanding our company-wide assessment of our total impact and value. Our new assessment is published in a report called 'Our Contribution to Yorkshire' and reviews the period from 2015 to 2020. This is our second report of this type and builds on the previous version using new techniques and data. The report shows the strong net positive contribution Yorkshire Water delivers for society, and it highlights further areas where we have risk and opportunity needing further attention. The report is available at https://www.yorkshirewater.com/about-us/capitals/.
- Continuing to apply the Sustainable Finance Framework (SFF), which we introduced in January 2019, applying the Six Capitals approach to monitor the impact of our operations and investments. We have raised to date £1,200m of debt through the framework, which we discuss further in the financial section of this Strategic Report. You can find more details about our SFF at https://www.yorkshirewater.com/attachments/Sustainable-Finance-Framework-Impact-Report-2019-20
- Applying and embedding the Six Capitals assessment functionality that is integrated in our planning and optimisation system, the Decision Making Framework (DMF). We used the tool to optimise and report the impact and value of our five-year business plan from 2020 to 2025, 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 in our *Love our environment* section.
- Developing a Six Capitals land planning tool that will support our new land strategy. This will ensure we realise the maximum value from our 28,000 hectares of land holdings across Yorkshire by protecting sources of water while delivering other benefits such as flood management, recreation, farming, wildlife, and carbon storage.

Our ambition is to be a long term leading performer in our sector. We articulate this ambition through our Five Big Goals which we co-created with our customers, communities and stakeholders.

Our Five Big Goals

Putting people first

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.

Being great with water

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

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

Being a great partner

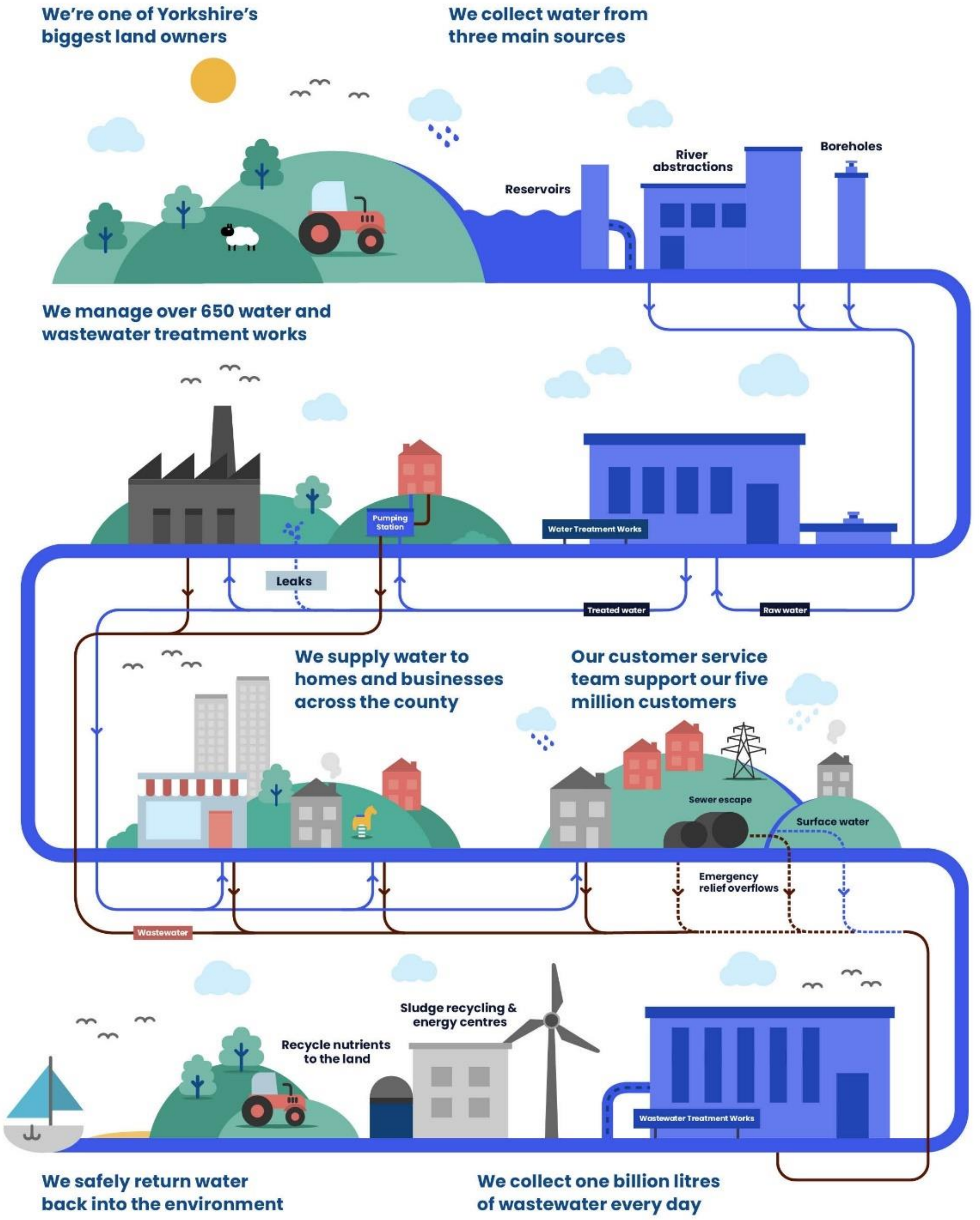
We want to lead by example in Yorkshire and we'll use the best from around the globe to do that. We'll be open about what we do, work in collaboration with customers and in partnership with others to help our region, and our business, to grow. We'll celebrate the diversity we have in Yorkshire, opening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

Keeping services affordable

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.

Our business model



Yorkshire Water

The following sections cover the Five Big Goals used to measure Yorkshire Water's financial and non-financial performance criteria.

Our Five Big Goals - *Putting people first*

Health & Safety

When putting people first nothing is as important as the safety, health and wellbeing of our colleagues, partners, and customers. Our goal is Zero Harm, not as a statistical target, but as a moral imperative, and as such we are committed to driving a proactive safety culture that is addressed through people, plant, and process.

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Lost time injury rate(LTIR)	No./10,000 hours	0.21	0.32	0.27
Sickness absence rate	%	3.06	10.00	7.00
Process safety	Incidents	5	12	12
Leadership safety activities (eg: site visits)	No. activities*	7,057	6,540	6,885

*Due to Covid-19 restrictions 2021 safety activities included safe working practices such as remote risk assessments.

Whilst we have achieved milestone performance over the last year, in line with our goal of Zero Harm, we have conducted a full externally run review of safety across the business. From this we have evolved our safety strategy and developed a plan to drive our safety culture. The strategy, based on people, plant and process, focusses on building a health, safety, security and environment (HSSE) function as a centre of excellence to support the business, and maintaining a focus on safety across our business to deliver activities.

This year we have achieved the lowest recorded LTIR in Yorkshire Water, at 0.21, which represents a 41% reduction in time lost due to injuries per 100,000 working hours compared with last year. This follows the trend in reduction that was observed over the last regulatory period (AMP6) and now continues in AMP7. In relation to our sickness absence rate, despite the challenge posed by Covid-19, we have surpassed our target of 10% achieving a rate of 3.06%. This represents 1.11% for Covid-19 related absences, and 1.95% for non-Covid-19 related illness. Safety is set by the tone from the top and the commitment the leadership places on engaging with our colleagues that is in part measured through the number of leadership safety activities that have been conducted. In 2021 we have surpassed our target.

have restructured the HSSE organisation and developed an aggressive plan for further HSSE improvement that goes beyond compliance.

Occupational health and safety

Our occupational safety performance has continued to improve, with notable reductions in manual handling injuries. Our plans this year have focused on improving the quality of risk assessments, and ensuring that people have the rights skills to perform their work safely. Covid-19 has presented challenges to training, but despite these challenges we have through utilising technology been able to provide safety training remotely to our colleagues.

Contractor safety management

This year we have had strong safety performance with our contract partners within the capital delivery program. We are committed to ensuring that our contract partners are safe when they are working on our behalf. We continue to engage with contract partners within our capital and service delivery world, with over 50 leaders from various organisations attending a virtual session led by the Chief Executive Officer (CEO) to promote learning and best practice. In addition, we ensure that all our projects follow our 'End to End' process to provide assurance throughout the life cycle of our projects. In the year ahead, our partners are being invited to the Health and Safety Committee chaired and attended by Board members to showcase best practices that are being applied within our projects.

Our response to the event at Avonmouth facility

It is with great sadness that we acknowledge the explosion and tragic loss of life at the Avonmouth facility owned by Wessex Water. In response to this we conducted a full review of all our major hazard activities that examined all our representative explosion scenarios, and have ensured that all the necessary controls are in place to prevent a similar event occurring at Yorkshire Water.

Process safety management

This year we have met our process safety target with only five events, resulting in asset damage, against a target of 12. These resulted from legacy issues in design and maintenance. In response, this year we commenced a process of integration that will draw together best practices from across the business and to improve consistency in the way in which we manage process safety. This will establish a company-wide process safety management framework with oversight by the Process Safety Strategy Group that will utilise leading process safety metrics to drive continuous improvement in the way we design, maintain, and operate our processes. Supporting this the Dynamic Maintenance strategic programme is implementing a new maintenance strategy with condition based monitoring and other appropriate maintenance philosophies that will enhance the reliability of our operations and further enhance the safety of our processes.

Health and wellbeing

Our commitment to health goes beyond the physical aspects, extending into providing support for the mental health and general wellbeing of our colleagues. The Covid-19 pandemic and the resulting restrictions on day-to-day life, had the potential to significantly increase sickness absence within our workforce. However, even when adjusted for the impact of Covid-19, our sickness absence rates have reduced, and sickness absence rates remain low. Our Occupational Health team provides support to colleagues that extends beyond work-related illnesses, encompassing psychosocial issues that can impact their general wellbeing. Occupational Health receive over 200 referrals per month, with 44% of these relating to psychological health. To ensure our colleagues receive the support they need we have focused on creating a culture of bespoke, holistic person-centred care, including psychological support throughout the business. As an integral part of this approach, we have trained over 1,700 mental health first aiders, many of which are line managers. We provide direct case management support and, when needed, access to mental health professionals. We have in place numerous support mechanisms including employee assistance programme (EAP) services and access to other specialist mental health services that are accessible to all our colleagues, along with the mental health first aiders who have been trained within the business. This is further underpinned by a continuous program of team stress risk assessment that seeks to identify environmental stressors, rather than focus solely on increasing personal resilience. In short, we are creating a culture of emotional support through leadership in which it is 'okay not to be okay'. Our approach to health and wellbeing is aligned to public health agenda and develops health promotion/health education activity, developed using evidence-based health needs assessment, which is evaluated for effectiveness. To further support this approach, a strategic wellbeing group, with representatives from each area of the business, meets on a quarterly basis to discuss ongoing health issues, share best practice, and discuss the development and progression of health promotion activity to ensure that it can be embedded across the whole organisation. Recent projects have included lifestyle issues, fatigue, sleep and anxiety management.

We have seen a trend of threats towards colleagues from members of the public, in order to safeguard our people and partners we have reviewed our existing measures and introduced further controls. These controls have focused on three areas, namely situational awareness, training, and response to incidents. Prior to any work being undertaken we now have a process to provide situational awareness to managers and colleagues of any potential challenges within an area of operational activity. This ensures that additional precautions can be taken before work commences. We are rolling out new training so that colleagues know how to respond to threats and remove themselves safely from a situation. Finally, from a response perspective our duty management process has been updated so that colleagues are safeguarded in the event of facing a potentially hostile situation, with clear routes of escalation and response.

Public and customer safety

The safety and wellbeing of our customers and members of the public is also at the forefront of our thinking and is an integral part of everything we do. On the rare occasion an incident occurs or we receive concerns from member of the public, we take all practical measures to ensure the continuing safety of the public.

Public Safety at our reservoirs

We have many reservoirs that provide idyllic locations for the public to visit and enjoy. We are continually reviewing public safety at these locations to ensure that the publics experience is enjoyable and above all safe. As an example, swimming in our reservoirs is prohibited - despite the inviting nature of these reservoirs they are operational assets with many subsurface hazards that present a serious risk to anyone swimming in them. As part of our review we have already introduced several measures including marshals to patrol these locations. In addition, we recognise that members of the public are not always aware of risk associated with swimming in reservoirs, despite warning signs, and it is for this reason that in the year ahead we will be delivering a series of awareness and engagement campaigns to educate people to these risks.

Mental health and wellbeing of customers

It is not only the physical safety of customers that is of prime concern to us, but also the impact we can have on the emotional and mental wellbeing of our customers. This is even more apparent during Covid-19, which created a situation in which people may be more likely to suffer emotionally.

As such, we are implementing processes to equip our colleagues to keep our customers safe where we identify their mental health leaves them at risk of harm.

Our Colleagues

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Staff turnover – voluntary leavers	%	5.02	<10.00	<10.00
Competency and progression – internal promotions and moves	%	15.31	15.00	15.00
Diversity & Inclusion – Proportion of workforce who are female	%	32.16	34.00	36.00

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. 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 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 an annual statement on our commitment to the issue. Our latest statement can be found on our website at: 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. Poor labour practices have the potential to exist in all supply chains, both overseas and within the UK. 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 will continue to work with our supply chain to ensure compliance with relevant legislation and seek to improve labour practices. We partner with external experts to help us to understand the parts of our supply chain that represent the greatest risk, and work with them to gain assurance that poor practices are not in place. 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

www.water.org.uk/publication/water-uk-public-interest-commitment-update.

Attracting great people and maintaining the skills we need

We recognise that our people are our most important asset and it 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. Our people strategy and supporting programme of change will transform the way we develop our people through a range of initiatives, developing talent programmes and rewarding our colleagues with great working environments, fair wage, and reward package.
In 2021 we have:

- A current cohort of 62 apprentices with a further fifteen starting over quarter 1 of 2021, and potential for a further sixty apprenticeships to be offered over the next financial year;
- In our graduate programme, we have continued to develop the 26 graduates currently in our programme, and we have a confirmed September 2021 intake of 11 graduates set to join the business;
- Continued investment in social recruitment channels, utilising 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 expands our talent pipelines;
- Greater use of online tools to assess and interview colleagues in the comfort of their own homes;
- 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;
- 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 help them to understand the systems and procedures followed by the organisation. New employees settle down quickly in the new work environment and the support enables them to flourish in their role; and
- Continued with our commitment to diversity and inclusion with investment in various programmes, more detail of this is given in the Diversity section below.

Diversity

We are committed to providing a diverse and inclusive working environment which reflects our equally diverse customer base. This is integral to delivering our Five Big Goals and our vision of 'Putting people at the heart of everything we do'. We also believe that an innovative and effective Equality and Diversity Strategy is an essential ingredient in maintaining sector-leading performance, promoting equality of opportunity amongst all existing and future employees.

Gender	Male		Female	
	2021	2020	2021	2020
Statutory directors	9	9	2	2
	81.8%	81.8%	18.2%	18.2%
Senior managers	27	22	13	12
	67.5%	64.7%	32.5%	35.3%
Remaining employees	2,879	2,677	995	803
	74.3%	76.9%	25.7%	23.1%

Ethnicity	White		BAME		Not disclosed	
	2021	2020	2021	2020	2021	2020
Statutory directors	11	11	0	0	0	0
	100%	100%	0.0%	0.0%	0.0%	0.0%
Senior managers	29	23	2	3	9	8
	72.5%	67.6%	5.0%	8.8%	22.5%	23.6%
Remaining employees	2,501	2,517	206	173	1,167	790
	64.6%	72.3%	5.3%	5.0%	30.1%	22.7%

Our diversity figures have been based on Yorkshire Water employees, as the largest subsidiary of the group. In December 2020 we published our Workplace Diversity report, which covers other group companies, the report can be found at:

www.yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion.

In note 7 to the *Financial Statements* we disclose figures relating to UK regulated water services of 3,707 employees who were employed, in Yorkshire Water, based on monthly averages throughout the financial year. The figures stated in the tables above relates to the number of employees at 31 March 2021. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements. There has been an increase in employees throughout the financial year, this is a result of department structure changes combined with insourcing activity within the clean and wastewater networks.

Like many companies in the water sector, historically we have had a predominantly white male workforce. We continue our focus on improving our diversity to better reflect the communities we serve. We have targeted data-led approaches which are moving the dial on our diversity and inclusion agenda. This is a long-term process and we are slowly seeing the benefits, as well as constantly reviewing the work we are doing. Our aim is to put people at the heart of everything we do, creating an environment that is inclusive of everyone. Examples of activities we are doing in this area are:

- We have re-energised our diversity and inclusion strategy and embedded it into everything that the business is doing from recruitment, learning and development, succession planning and even working with partners;
- We have worked to integrate the improvements from the review of our recruitment process to ensure it is supportive of difference and inclusion;
- Our annual Workforce Diversity Report was published again in 2020 as well as the Ethnicity and Gender Pay Gap reports. Together they capture in detail the efforts we are making in presenting honest data, and our activity geared towards further inclusion and diversity in the business;
- We are members of the Business Disability Forum which 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 have created a centralised process to enable colleagues to quickly receive any support they need, aiming to remove any bias from the process, and launched a business disability forum where colleagues have more access to support. The process will have a centralised budget available to all staff, with a much easier process to support this;
- We have continued to invest in the Women in Leadership programme to address the under-representation of females in leadership roles. The 2020 cohort of ten women have completed their course and we are preparing for the next cohort in the summer of 2021. There is a strong network between the alumni, and 60% of attendees since 2017 have either moved up, sideways or improved their career prospects within the business;
- We have also continued to support the Black, Asian and minority ethnic (BAME) Leadership programme. This is in line with addressing the minimal representation of BAME in leadership roles within band three (managers) and above. We have had two cohorts completing the course so far since 2019 and 60% of the colleague from the 2019 cohort have either moved up or sideways within the business. The programme continues with the third cohort starting in April 2021. These cohorts are forming a strong network within the business;
- 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. We currently have eight colleagues from the Lighthouse Trust who have joined us in February of 2021 as interns and are enjoying their roles with us;

- We continue to be part of an employer's forum supporting internships and employment for students with autism across the region;
- 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, Disability, 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;
- These four key diversity and inclusion streams are actively supported, and members continue to be role models, and plan and deliver amazing events and activities. We have also offered leads and members the possibility to attend certificated training for diversity and inclusion champions;
- We are part of the Yorkshire Diversity Forum with approximately 70 members: businesses from across Yorkshire coming together on a quarterly basis to discuss best practice around difference and inclusion. This allows us to benchmark progress against other organisations and explore what others are doing to adopt and adapt ideas where appropriate;
- We continue to participate and share in partnership learning within the Energy Utility Skills partnership and, together with other members, we are part of the wider inclusion commitment;
- We play a key role in the Leeds Anchor Institutions network and are part of the Social Mobility Business Partnership;
- We are regularly auditing, reviewing, and evaluating progress, using quantitative and qualitative data on both diversity and inclusion to highlight where barriers exist (e.g. via recruitment data) and show the impact of initiatives, making appropriate changes to activities if needed. As well aiming to use employee surveys to evaluate initiatives, to assess if policies are working for everyone, and to provide a platform for improvement; and
- We have continued with our commitment to diversity and inclusion with investment in various programmes, more detail of these is given later in this Diversity section below.

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, as summarised below.

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2020	(0.5%)	(0.3%)	(6.3%)	0.0%
2019	1.5%	0.1%	13.6%	5.7%

Receiving bonus

Year	Females	Males
2020	91.2%	93.5%
2019	89.8%	88.3%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2020	23.8%	76.2%	22.7%	77.3%	19.5%	80.5%	26.0%	74.0%
2019	21.5%	78.5%	23.3%	76.7%	22.8%	77.2%	22.4%	77.6%

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

The narrowing of the gap can largely be attributed to a steady change in the profile of our workforce. Like many companies in our sector, our workforce profile has in the past been largely male and as a result, the company has had more men than women in senior, better paid roles. Over time, and particularly in the last few years, the number of women in higher paid, more senior positions has increased. Between 2017 and 2020, there has also been a reduction in the number of women in the lowest pay 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: https://www.yorkshirewater.com/attachments/40797-Gender-Pay-Gap-Report-2020-Web

Ethnicity pay gap

Our Ethnicity pay gap data for 2020 is summarised below:

	Mean hourly pay		Median hourly pay	
	2020	2019	2020	2019
Employees	£18.1	£17.8	£16.7	£16.7
White employees	£18.0	£17.8	£16.7	£16.7
BAME employees	£19.6	£18.3	£16.4	£15.1
General pay gap	(8.8%)	(3.3%)	2.1%	9.7%

Relative to the total number of colleagues across the population covered by the 2020 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, 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 2020. 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 from 2019 to 2020. 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.

All above diversity statistics are based on Yorkshire Water employees, as the largest subsidiary of the group. Further information about our ethnicity pay gap and the action we are taking to address it can be found on our website through our workforce diversity report at:

https://www.yorkshirewater.com/attachments/41349-Yw-Workplace-Diversity-Report-Web-Jan-2021

Our Customers

This year we launched the new Customer Experience strategy which was developed using customer insight and in alignment with the new company brand, ambition and behaviours to form the Yorkshire Water Experience. Our strategic intent is to become "one of Yorkshire's most customer and colleague valued organisations", recognising that our customers are unable to choose other water companies, and so should really value the experience when comparing us with other organisations they do choose to deal with. The strategy will also help us deliver against the new measure of service from Ofwat, Customer Measure of Experience (CMEX). This measure not only assesses a customer's service experience, but is equally weighted with a broader survey of their overall perception of Yorkshire Water as a brand. This makes it even more imperative that we're living up to our customer expectations every day.

As well as improving the overall experience we deliver to customers, the strategy will also provide a reduced cost to serve, ultimately making bills more affordable. The delivery of the strategy is a balance between in-year agile change to 'fix the basics' and longer-term change investing in our strategic capabilities to enable a more digitally enhanced customer experience.

With the launch of the strategy, we also launched the new Yorkshire Water promise, to help every colleague understand what they need to deliver day-to-day to drive the best possible experience for customers. This year has focused on the first aspect of our Customer Promise "You can Rely on Us" which has given clear purpose to colleagues supporting customers and each other through the challenges associated with Covid-19. Customers have relied on Yorkshire Water more than ever to provide their essential service, to keep water flowing and networks clear. In addition, colleagues have relied on us to ensure they can work from home safely and have all the equipment and tools they need to continue to deliver a resilient service to customers. During this period, service levels have been maintained, digital channels have been enhanced to reduce telephone demand, and colleague engagement scores have been company leading despite the challenges of reaching and communicating with colleagues virtually.

During 2021 we have seen an increased number of contacts year on year across billing, water and wastewater, as customers have become more anxious about the cost of their bills in relation to increased consumption, and have been more reliant on resilient services, with any interruptions to service causing significant impact to their new lockdown lifestyle. This increase has put pressure on both colleagues and our existing digital channels and reinforces the need for future investment in our digital customer experience to better manage the customer demand.

There have been challenges with the Priority Services Growth reputational measure as the target assumed an energy sector data share programme which has been delayed due to issues with General Data Protection Regulation (GDPR). Despite this, the Priority Services Register satisfaction score has outperformed its target demonstrating that we are meeting the needs of those customers in vulnerability.

Developer Services have had a successful business case for investment and are focusing on the performance transformation required to improve the Developer Services Measure of Experience (DMEX) score, and provide a better platform for development growth in Yorkshire.

The focus for next year is on equipping the business with the required skills, tools and capabilities to further improve the value customers experience from Yorkshire Water. Change activity will focus on:

- Contact demand management and reduction, improving the online self-serve experience for customers;
- Increasing colleague effectiveness by embedding a performance excellence culture and improving colleague utilisation through coaching and training; and
- Investing in our strategic capabilities - working with teams across change and technology to focus on the required technology changes to ensure resilience and sustainability.

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Customer Voice	%	4.67	4.70	4.70
CMEX	Ranking	8th	9th	9th
DMEX	Ranking	16th	17th	16th
Priority Services Register	No. of customers on the register	77,395	≥87,000	≥90,000
Overall Satisfaction with water and sewerage services according to an independent survey by the Consumer Council for Water (CCW)	%	89	≥89	≥89

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 to 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.

The majority of our activities have been impacted by Covid-19, including our successful employee volunteering programme. However, we've not stood still during this time and have successfully implemented the following activities:

- Whilst our education centres have been closed to visitors in order to protect our operational colleagues, we have continued to deliver a range of education programmes. These include online lessons, virtual live lessons, virtual careers sessions, and family workshops at our
- nature reserve. When circumstances have permitted, we've been into schools to deliver our sessions in the classroom;
- The education pages of our website have been re-designed for easier access and we've provided a range of home learning activities for students to take part in;
- We've supported the organisation of industry wide events through the 'We are UK Water' network of water industry education teams, leading to live events on World Toilet Day & World Water Day;
- A series of social media films were created and showcased to audiences on Twitter and Facebook, delivering over 23,000 hours of education;
- Our new 'Living Lab' at Wilberforce College in Hull is nearing completion and will open for visits in summer 2021; and
- Our 'Afterschool Club' for the children of our colleagues was successfully offered during Spring 2021, providing support for those children, and adults, working from home.

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. Between 2014 and 2019, 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 fundraising activities have been affected during the 2021 financial year, with many of our events cancelled or postponed. Once restrictions allow, we will start to reintroduce these much-valued activities.

Our Five Big Goals - *Being great with water*

Clean Water

The water business collects and treats over a billion litres of water every day, treating the product to a food grade, and distributing to five million consumers daily. That volume of water is collected in 120 impounding reservoirs and abstracted from over 20 groundwater and river sources. It is treated to the highest standards at 50 water treatments works, distributed through 35,000 km of pipe work, and stored at optimum conditions to meet the demand 365 days a year when our customers want it. The key measures for our water service focus on sufficiency (security of supply and leakage), availability (Unplanned Outage (UPO)), quality (Compliance Risk Index (CRI)) and an uninterrupted supply (Customer Minutes Lost). In addition, our assets are operated to minimise environmental harm by managing abstraction and preventing pollution through discharges from the treatment process and pipe failure. It has been an excellent year for the water service area of the business, with the measures all showing significant improvements from the previous year. Despite the driest spring and an extended cold winter, our availability (UPO) ended the year ahead of plan. Leakage continued to improve but due to a harsh winter we ended slightly above the regulatory target. Year on year water quality showed a significant improvement on the CRI measure. Drinking water contacts continued its downward trend with a best performance on drinking water contacts. The improved performance comes from the increased levels of investment in capital maintenance and maintenance activities of the water treatment and distribution assets, as well as improved processes for response and resilience. Leakage has benefited from a significant investment in traditional detection methods as well as now seeing the benefits of new technology such as acoustic logging and satellite detection.

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Asset health - Mains repairs	No of repairs per 1,000 km mains	215.0	≤186.1	≤183.6
Asset health - Unplanned outage	%	3.87	≤5.12	≤4.42
Leakage	% reduction	3.5	≥3.4	≥7.4
Drinking water contacts	No./10,000 properties	10.5	≤11.4	≤10.6
Drinking water quality (CRI)	Score	2.46	0	0
Water supply interruptions	Mins:secs	7.14	≤6.30	≤6.08

The forward plan has tight regulatory targets for all six measures. Our water area is looking to meet the "upper quartile" threshold for performance set by Ofwat for UPO and CRI and continue the improvement in Leakage across the remaining years of this five-year regulatory period. Significant effort has gone into improving our repair and maintenance performance on the distribution network as our current Water Service Agreement enters its final year. A successful tender process has created conditions for the new Water Services Partnership to further improve service and reduce cost of these activities, which are a significant part of our everyday operational response. Management of our water resources has seen supplies maintained at a healthy position, and also providing the ability to support local flood resilience activities in the Calder Valley.

Wastewater

The wastewater business receives approximately a billion litres of wastewater every day and collects everything from the sinks, toilets, and baths from our domestic customers. We also receive industrial effluents from business customers across the region. That volume of wastewater is collected, pumped, and treated through 52,315 km of sewer, 2,385 sewage pumping stations and 608 wastewater treatment works before safely returning to the environment. The key measures for our wastewater service focus on pollution incidents and sewer flooding (internal and external to a customer's property). These measures target reducing the potential for environmental and societal harm which can happen from operating such an expansive asset base.

It has been an excellent year for the wastewater service area, with the measures all showing significant improvements from the previous year. Pollution incident numbers are reduced and will contribute to a broader four-star categorisation from the Environment Agency (EA) in their annual Environmental Performance Assessment (EPA) and also meet the Ofwat regulatory PC (2020: three-star EPA). The improved performance comes from the increased levels of investment in maintenance activities of the sewer network, as well as improved processes for incident management and learning.

Sewer flooding has benefited from the previously reported sewer maintenance insourcing and growth of the sewer operations and maintenance department (Customer Field Services). This is now delivering productivity and quality benefits whilst also focusing on business process and incident learning to reduce the potential for repeat incidents. Internal sewer flooding has improved from 2020 but remains above the regulatory PC. External sewer flooding has also shown improved performance from 2020 and is ahead of the regulatory PC level.

Our key measures

Measure	Units	2020		2022
		Actual	Target	Target
Pollution incidents*	No. of incidents per 10,000 km sewer	24.00	≤24.51	≤23.74
External sewer flooding	No. of incidents per 10,000 km sewer	5,038	≤7,188	≤6,809
Internal sewer flooding	No. of incidents per 10,000 km sewer	3.34	≤1.68	≤1.63

The forward plan has tighter regulatory targets for all three measures. Our wastewater area is looking to meet the "upper quartile" threshold for performance set by Ofwat for pollution incidents and continue the improvement across the remaining years of this five-year period. It will, however, be difficult to maintain three-star (good performance) with the EPA, as their methodology has been revised for 2022 with target expectations that are not consistent with Ofwat's PC levels or measurement. The company intends to continue improving its environmental performance.

External sewer flooding improvement will also be a focus, and Yorkshire Water is looking to make further improvements in year two (2022) and outperform the regulatory targets across the five-year period. Internal sewer flooding will remain above the regulatory PC levels despite the company targeting significant performance improvements across the AMP. We have long-term internal sewer flooding improvement plans which extend beyond AMP7 to deliver "Upper Quartile" levels of performance for this measure through continuing to embrace technology and innovation to make leaps in performance.

Our Five Big Goals – Love our environment

Energy & Carbon

The importance of greenhouse gas emission reduction to Yorkshire Water has been strengthened this year with the publication of our net zero carbon route map - our strategy to become a carbon neutral company by 2030. Our operational carbon emissions, those we emit through our daily activities such as electricity consumption and fuel consumption, are also now an Ofwat PC, meaning we need to reduce our emissions by 12% by 2025. We have achieved the Carbon Trust Standard since 2012, which is a voluntary scheme we use to further demonstrate real reductions in our carbon footprint. We aim to hold ourselves to the highest standards and to be as transparent as possible when it comes to our emissions. To achieve this we use the water industry's standardised tool to calculate our emissions to ensure we consider the latest research in this area and have our input data verified to ISO 14064 to ensure it is highly reliable and thoroughly vetted.

Our reporting approach uses both 'location' and 'market' based methodologies. Under a location-based approach we use standard national factors published by the UK government, and under a market-based approach we use supplier-specific values which reflect out procurement decisions. For example, under a location-based approach we calculate our emissions from electricity to be 125kt CO_2e using standard factors, however we purchase all of our electricity on a green zero-carbon backed tariff from Engie, which means under a market-based approach our emissions from electricity are 0 tCO_2e. Furthermore, under this approach we have cut our emissions by over 70% from 448ktCO_2e in 2004/5, which highlights the importance sustainable and renewable power sources are in becoming carbon neutral.

We have a large fleet of vehicles in continuous operation that contributes significantly to our emissions. Using a combination of external consultants and internal expertise, we have developed a strategy for reducing our fleet emissions which feeds into our wider strategy to become a carbon neutral company by 2030. During the 2021 financial year we have put in place projects and initiatives that will save approximately 660 tCO_2e from our fleet emissions every year. This has been achieved by a combination of driver training programmes, route optimisation, smart meter rollouts, and the purchase zero carbon vehicles.

The tables in this section detail our performance in this area, but first it is important to know what we mean by 'scope' when it comes to Greenhouse Gas (GHG) emissions. Further information can be found on our website at:

https://www.yorkshirewater.com/environment/climate-change-and-carbon/.

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.

Measure	Units	2020		2021	
		Market-based	Location-based	Market-based	Location-based
Scope 1	kt of CO_2e	87	87	83	83
Scope 2	kt of CO_2e	0	132	0	125
Scope 3	kt of CO_2e	12	23	21	21
Total GHG emissions	kt of CO_2e	**99**	**242**	**104**	**229**
Intensity ratios	kg CO_2e per megalitre of water supplied	n/a*	162*	n/a*	149
	kgCO_2e per megalitre of wastewater treated	n/a*	482	n/a*	479

*these figures were not applicable as we use only location-based intensity ratios as these give the best comparison of our emission across each year.

The figures listed here for 2020 have been updated from when they were initially reported last year, the majority of changes are due to an improvement in the scientific understanding and carbon accounting of our process emissions.

Fuel use, GWh		2021	2021
Electricity (including renewables generated)		602	617
Diesel		82	72
Gas Oil		36	30
Kerosene		0.18	0.09
Natural Gas		9.3	9.0
Petrol		4.0	2.0
Total		**729**	**730**
Intensity ratios	kWh per megalitre of water supplied	588	667
	kWh per megalitre of wastewater treated	439	584

Disclosing our climate change risks and strategy

This section is our fifth annual disclosure in line with the guidelines from the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). The section below gives a brief overview of how Yorkshire Water assesses and manages its priority climate change risks, and how these risks are governed and reported. Later this year we are planning to publish our third Adaptation Report, as required of all water companies and other providers of essential public services under the Climate Change Act. This report will provide a much more detailed view of our climate change risks. We have developed a programme to help us deliver net zero by 2030.

Since our last disclosure we have:

- Refreshed and updated our entire corporate risk register, setting new risk appetites and tolerance statements for all our principal risks;
- Committed to reach net zero by 2030 and launched a national route map in 2020;
- Updated our climate change pages on our website, adding regular updates on our emissions;
- Developed a solar framework to help deliver 90mW of solar power as part of our low carbon ambition;

- Developed our land carbon model so we can assess the carbon impact of our land management activities such as peatland restoration;
- Invested an estimated £10m to repair, reinstate or upgrade 27 of our assets which were affected by flooding in 2020; and
- Played our part in managing the impacts of Storm Christoph in early 2021, supporting a multi-agency response with the EA and Local Resilience Forums.

This section should be read in conjunction with several other parts of this report including the *Energy and carbon* section.

Governance and management of climate change risk

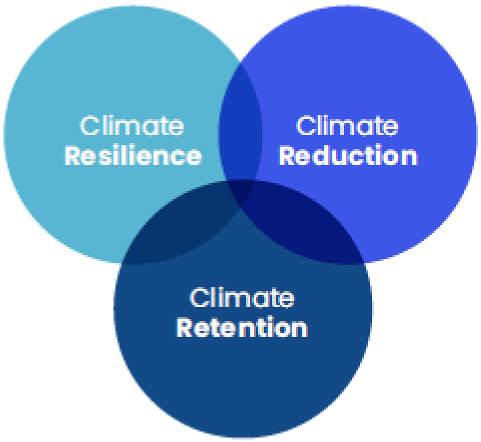
As a water and wastewater company, we deal with the weather every day and are at the forefront of planning for a changing climate, having included climate change in our long-term plans since the 1990s. Climate change does not bring any brand new risks to the company, rather it brings forward and exacerbates known risks such as flooding and drought. Our corporate risk register, therefore, includes many climate-related risks which are managed within our standard risk management process. We also have a specific principal risk of "w*e may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets".*

Senior management in different areas of the business assess and manage climate risk according to the corporate risk appetite, their position within the company, and the proximity and severity of the risk in question. For example, the risk of drought causing restrictions in drinking water supply is managed at strategic, tactical, and operational levels. Other Board level committees provide governance around our carbon related commitments, for example the Social Value Committee looks at progress towards our Public Interest Commitments, including that around net zero carbon. The People and Remuneration Committee defines the reward and incentive arrangements for our senior leadership team, with the package including measures on the resilience of our services and our performance in reducing carbon emissions.

Our climate change strategy

We are currently updating our Climate Change Strategy which has three main elements:

- Reduction - focusing on reducing our carbon emissions to support a stable climate for our customers and operations;
- Retention - ensuring our land is used in the most strategic way to store carbon and integrate with other good land management activities; and
- Resilience - for our services, assets, and operations in the changing climate.



We have set out our ambitions to meet net zero by 2030 through a mixture of energy efficiency, investment in renewable technology, and land management such as peatland restoration and tree planting. Yorkshire Water details more about its carbon ambitions and emissions here:

https://www.yorkshirewater.com/environment/climate-change-and-carbon/.

Risk management

Yorkshire Water faces many climate-specific risks including drought, flooding, land management, coastal erosion, invasive species, and affordability. We are committed to addressing these risks through both adaption and mitigation, for example by pledging to reach net zero by 2030. Our statutory long-term water resource management plan (WRMP) and drought plan set out how the company will manage the increasing risk of hot dry weather and increased demand due to climate change and population growth over the next 25 years. The Yorkshire Grid means our customers' supply is resilient to a 1 in 500-year drought event, one of the highest levels of drought resilience in England. To meet and maintain this level of resilience we are prioritising investment to reduce leakage by 15% by 2025. Climate change will also increase the risk of flooding of assets from rivers and the sea. The company's assets are, by necessity, located next to rivers and the sea and can be difficult to fully flood proof. Critical equipment has been raised above historic flood depths at our largest and most important sites, with an allowance for climate change where practicable. This allows the company to recover these sites quickly when they flood. Our assets also play an important part in managing flood events, for example pumps in Hull and York support the EA's flood defences, and Yorkshire Water is a category two responder during civil contingencies.

We are also leading the way with natural flood risk management techniques, co-ordinating the Yorkshire Land Network, encouraging farming tenants to adopt the Beyond Nature approach to sustainable farming, and collaborating with the National Trust and others on landscape scale schemes to slow the flow of water. Alongside our peatland and other habitat restoration work, this activity helps protect raw water quality, sequesters and stores carbon, and enhances biodiversity.

Managing the risk of surface water overwhelming the sewer network represents one of the most challenging climate risks. The automatic right to connect, urban creep, population growth and increasing intensity of rainfall due to climate change mean that the capacity of our network is decreasing. The new requirement for 25-year Drainage and Wastewater Management Plans (DWMP) will help place drainage planning on the same basis as water resources, allowing a long-term view of risks and solutions. The company's first DWMP will be published in Summer 2022. We will require ongoing investment in sewer repair and refurbishment to prevent flooding, alongside a programme of investigations and solutions to reduce the impact of storm overflows on river water quality. The company will also need to work in partnership to remove surface water, highways drainage and watercourses from its network. Our £22m Living with Water programme in Hull seeks to identify partnership opportunities to manage surface water flooding in a more holistic and sustainable way. We are also encouraging surface water removal by working with developers to install appropriately designed Sustainable Urban Drainage Systems (SUDS) which the company can then adopt. These systems help store and slow the flow of rainwater into our network, reducing the risk of sewer flooding.

Metrics and targets

We have set out our ambition to meet net zero by 2030. Progress against this target is published on our website alongside our performance against our performance against other weather-affected targets such as leakage and sewer flooding. These metrics help show how we are managing the impact of weather and climate on customers and the environment and therefore how well we are managing our climate risk. The ultimate measure of our resilience to climate change is a long-standing absence of interruptions to water and wastewater services. Customers in Yorkshire have had no restrictions to their public water service since the drought in 1995/96, despite several more extreme dry periods since then, including a challenging year in 2018. We have also maintained water supplies throughout severe floods in Yorkshire over recent years.

GRESB Infrastructure Asset Assessment

For the last two years, Yorkshire Water has participated in the GRESB ESG benchmark for real estate and infrastructure investments. This provides an international comparison of our performance on a range of ESG issues that GRESB consider important to investors, fund managers and asset operators. We use these results as the main independent benchmark of our performance in corporate responsibility.

Our overall performance score for our latest 2020 assessment was 69 out of a maximum possible 100 points. We are pleased to report that this has increased from an overall score of 54 in 2019. Yorkshire Water's top strengths recognised by the report were our work on Leadership, Reporting, GHG Emissions, and Customers. We are ahead of the average benchmark of 61 points, although we are slightly below the average score of 73 for our peer-group, which consists of water utilities in the UK, USA and Australia. We will therefore continue to improve upon our performance to work towards reaching the top performers.

Our key measures

Theme	Yorkshire Water (Kelda Group)	Peer group average	GRESB Benchmark average
Overall Score	69 / 100	73 / 100	61 / 100
Management Score	39 / 50	31 / 50	40 / 50
Performance Score	29 / 50	30 / 50	40 / 50

Our Five Big Goals – *Being a good partner*

The Living with Water Partnership in Hull and Haltemprice is now entering a period of research and engagement, with the aim of creating innovative new blue-green flood prevention schemes. The partnership appointed Stantec in March to establish sustainable drainage solutions at a city-wide level, to reduce flood risk across the area and the East Riding, and deliver vital water management solutions for the future.

This work has followed on from a very successful City Water Resilient Assessment in November, led by world leaders in sustainable design solutions, Arup. This partnership continues to grow in strength, and with additional investment released through the CMA re-determination, we can undertake more work to improve hopes of a resilient future for Hull and the East Riding.

Don Valley Catchment Partnership

We have built on our experience in Hull and Haltemprice to help co-create a new flood resilience partnership in South Yorkshire. Together with the Mayoral Combined Authority, the EA, and the four South Yorkshire local authorities, we have committed to closer working and a joined-up approach to protecting homes, businesses, and critical infrastructure from flooding. We hope and expect that this new partnership will play a role in communicating with the public and their representatives, and that the partnership will be to the benefit of the wider community. Multi-agency working groups are already in place, looking at how we tackle the climate crisis, how we grow and share the information we have on flooding, and how investment is targeted at the locations where it will have the greatest impact.

Yorkshire Land Network

Whilst protecting Yorkshire from flooding is important, it is not the only area where we are working in partnership. As the second largest landowner in Yorkshire, we know that how we and other landowners manage our land is important. We have therefore continued to grow the Yorkshire Land Network, a partnership of key land managers and influencers in Yorkshire which we first introduced to a wider audience in December 2019.

The agreed purpose of the Yorkshire Land Network is to improve collective understanding of the opportunity of the land we own, communicate this with a collective voice and enable collective action that benefits Yorkshire. The partnership's early work has focussed on how land managers can help tackle the climate crisis through work on their land, and how partners can help facilitate wider public access to land without compromising the safety and livelihoods of local communities.

Sheffield Smart Networks

In Sheffield we have worked with the local council and Mayoral Combined Authority to convene a group of public and private sector organisations with the aim of rolling out an Internet of Things (IoT) network across the city. Through a functioning IoT network we, and our partners, would be able to install devices on our networks which provide real time information on the performance of our assets. For us, this information will drive down leakage, pollution incidents and even our carbon impact. Accessing this information is crucial to how our business adapts to the many challenges we face in the 21st century.

Our Five Big Goals – *Keeping services affordable*

The 'Direct Support to Customers' PC aims to provide bill support to our most financially vulnerable customers. In 2021, we continued to overperform this measure through exceeding our targeted support on Water Support, our social tariff designed for customers on low incomes, and Direct Support, our new support scheme implemented in 2021 for customers who pay through benefit deduction.

The Gap Sites measure aims to minimise missing properties from the billing file whilst the Voids measure aims to maximise the number of properties billed. Both these commitments aim to ensure billed income is maximised resulting in lower bills for all customers in future years.

The weighted average Voids performance for the full year did not meet target because of delayed implementation of new activity due to the Covid-19 lockdown in the first quarter of 2021. In the second half of the year new activities were successfully implemented resulting in significant improvement. Our performance in March 2021 alone exceeded the 2022 targeted level.

Gap Sites: properties missing from our billing file resolved within 12 months, did not meet the required target. The age of the cases resolved in 2021 resulted in the target being missed. The clearing of older cases will allow for improved performance in 2022.

Our key measures

	Units	2021		2022
		Actual	Target	Target
Voids	%	4.73	≤4.50	≤4.33
Gap Sites	%	60.00	≥80.00	≥83.00
Direct Support to Customers	No. customers	61,406	≥58,000	≥69,000
Customers agreeing we are "value for money" in an independent survey by the CCW	%	82	81	81

*The table above shows performance against resolution of all Gap sites missing from the billing file. The PC submitted for 2021 is a measure of Gap sites missing from Developer Services processes, rather than the Billing file, and performed at 19% resolution within 12 months. We intend to engage with Ofwat to advocate amending our Gap Site PC reporting to Gap Sites missing from the billing file to better illustrate the benefit of this activity to customers.

During 2021 we will continue to offer meaningful financial support to our most financially vulnerable customers by at least meeting the target of 100,000 customers. Support will continue to come from our established help schemes. Our growth in support will be provided through increases in the number of financially vulnerable customers' bills that are reduced through social tariffs or water meters.

Building on improvements to our Voids services in 2021, we plan to outperform the 2022 PC and reduce Void properties to 4.15% of the billing file. Performance at this anticipated level will continue to ensure billed income is maximised, resulting in lower bills for all customers in future years. We also plan to reduce the time in implementing billing solutions for Gap Sites and meet our PC target.

Loop Customer Management

Loop's principal business is the provision of customer management services to Yorkshire Water, which are primarily billing and collections of household revenue. The changing economic climate can, therefore, have a major impact on Loop's activities and may impact on Yorkshire Water performance in Ofwat's PCs for customer service as detailed in the *Yorkshire Water* section of this Strategic Report.

Loop also contributes to the delivery of Yorkshire Water customer experience strategy, the customer promise and making Yorkshire Water one of Yorkshire's most customer and colleague valued organisations.

Engaging colleagues has been a key initiative through embedding our ambition to put people at the heart of everything we do and ensuring our new behaviours are aligned with performance management. This has been recognised by the award of "Outstanding" status in the Great Place to Work accreditation from Best Companies, which was based on colleague feedback and the retention of the Investors in People standard.

Whilst Covid-19 has been a challenge to delivery of service in 2020/21 it has also created an opportunity through the creation of new virtual ways of working. A focus for the coming year will be development of new flexible ways of working to retain the benefits of homeworking whilst returning to operating from our customer management centre at Midpoint in Thornbury, Bradford.

Keyland

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

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

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

The main risks to Keyland were:

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

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

KTM

The principal activity of KTM is to comply with the Goods Vehicles (licencing of operators) Act 1995 to demonstrate continuous and effective management of two operating licences (Yorkshire and

North-West England) for Large Goods Vehicles (LGV) allowing Yorkshire Water to operate LGV whilst promoting operating efficiencies.

As per the undertakings of KTM's operating licence, all legal and statutory documentation have transferred from Yorkshire Water. The company can demonstrate independence of Yorkshire Water. Three appointed transport managers are in place with two appointed Board directors supported by a company secretary. Covid-19 has introduced some additional costs for the hiring of vehicles due to social distancing requirements and a reduction to vehicle productivity, these have both been addressed through Business Continuity planning and therefore the impact has not been significant.

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

TSW and subsidiaries, collectively (TSWG)

The UK Water Act 2014 (UKWA) established the framework to create a market that allows 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater services from April 2017. Non-Household Retail (NHHR) services include services such as billing and customer services. The sale of the Yorkshire Water NHHR customer base took place on the 30 September 2019 to Scottish Water Business Stream Ltd. (Scotland's largest non-domestic water supplier). Whilst the TSWG have had to change the way in which the group operates as a result of Covid-19, the key deliverables of the group have not adversely suffered with KPIs remaining on track throughout the financial year.

The TSWG comprises three elements:

- TSW, which had a Water and Sewerage Services License (WSSL) obtained under the UKWA, gradually reduced its England based customers and ended the financial year with no customers. TSW's WSSL was therefore revoked in September 2020. TSW continues to provide shared services to its two subsidiaries.
- Three Sixty Water Services Limited (TSWS), provided NHHR services to a small number of Scottish customers under a Water Supply License (WSL) obtained from the Water Industry Commission for Scotland. Historically TSWS have also provided some non-regulated Added Value Services (AVS), such as flow metering, to customers in the Yorkshire Water service area and elsewhere in the UK. TSWS have actively transitioned this support of existing customers to Business Stream throughout 2021, with only three AVS customers remaining, who will see all customer support services transfer to Business Stream operations by 31 March 2022.
- Three Sixty Water Yorkshire Limited (TSWY), which provides customer service, billing, cash collection and debt management services to Business Stream.

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. The statement here relates predominantly to Yorkshire Water, as the largest subsidiary within the group.

Yorkshire Water is in the unusual position of being a privately owned company providing an essential public service. In addition to this, the communities in which we operate are also our customers which creates an even greater responsibility not only to have 'regard' to our key stakeholders, as required by section 172 of the Companies Act 2006, but to be acutely aware of how Yorkshire Water's actions impact upon them, both now and in the long-term.

This is reflected in the Yorkshire Water purpose – 'to play water's role in making Yorkshire a great place to live, to work and to visit' and our ambition 'to put people at the heart of everything we do'.

Case study: Land strategy

Yorkshire Water is the 16th biggest landowner in the United Kingdom with over 28,000 hectares of land. The long-term land strategy is therefore key to the long-term success of our business and our management of water resources in the future. The Yorkshire Water Board receives regular updates on our land strategy both at the Board and the Social Value Committee. In April 2020 the land strategy was approved by the Board, including four long-term initiatives to support the business through to 2030 and beyond. These included partnership projects, water catchment management and the use of land for low-carbon, renewable land-based technologies to benefit the environment and the communities in which we operate.

The purpose demands that we think of the long-term and our impact on the communities we serve throughout Yorkshire. Yorkshire Water's ambition requires us to consider people in all of our decision-making, including not just our colleagues but our customers and the communities around us.

Our use of the Six Capitals to measure our performance also helps in the consideration of stakeholders by the Board, as it means the impact of decisions on human, manufactured, intellectual, natural, and social capital is considered alongside any financial impact. More information on the Six Capitals approach can be found in the Yorkshire Water ARFS.

How does the Board consider the long-term in its decisions?

The long-term success of Yorkshire Water is reliant on thinking about the long-term implications of decisions, particularly in relation to the long-term availability of water resources as a result of the environment, climate change and the demographics and usage habits of the communities served.

Twice a year the Yorkshire Water Board considers long-term trends, risks, and opportunities through a 'horizon scanning' process, which is presented to and discussed by the Board. The Board also receives other updates on long-term trends through Board workshops, for example in February 2021 the Board received information on long-term demographic forecasts for Yorkshire, as part of a Board workshop on customer experience.

During the year the Yorkshire Water Board has participated in a number of thought leadership sessions on different topics which have considered the long-term impact of changes in digitisation, the future of work, partnerships, water catchments, climate change and the environment. These sessions have included external thought leaders and internal managers as well as drawing on the experience and expertise of the Board members themselves. Such sessions help inform the long-term strategy of the business and allow the Board to have significant input to the development of the strategy.

Within the business, the work on horizon scanning feeds into the longer-term strategy for the business, which in turn informs the annual Business Plan and key decisions being made day-to-day in the business. We publish a WRMP at regular intervals which sets out how we plan to maintain a secure supply of water to all of our customers over the next 25 years. The Board has oversight of the drafting of this Plan. The latest version of this plan can be found at https://www.yorkshirewater.com/about-us/resources/water-resources-management-plan.

As part of the process of five-yearly regulatory Price Reviews, the Yorkshire Water Board has to consider the impact of decisions over the current five-year AMP, but often has to think beyond this to the impact on future AMPs, for example when making decisions on capital investments or strategy. The Board has also considered long-term risks and opportunities as part of the scenario planning for our long-term viability statement. Each year the Board receives information on the different scenarios considered and challenges the assumptions made to ensure that the scenarios are appropriate and comprehensive.

How does the Board consider stakeholders in its decisions?

Case study: Colleague Engagement Forum

This has been the first full year of the Yorkshire Water Colleague Engagement Forum and there has been a wide variety of topics discussed with feedback, both positive and negative, being received from colleagues in many different areas. Frustrations raised by members of the Forum led directly to the launch of a 'fix the basics' programme as part of our ongoing wider business transformation. The 'fix the basics' programme seeks to remove bureaucracy and make it simpler and easier for colleagues to make basic changes which may have a significant impact on their day-to-day working experience. The programme has also seen the launch of an Ideas Hub on our intranet, which encourages colleagues to raise any ideas that they have which may improve our customer service, our efficiency or our working environment.

A Forum discussion around health and safety has also led directly to Board focus on specific areas of health and safety and presentations to the Board on topics such as the approach to wellbeing. The additional information gained by the Board in these areas then influences the decisions made and priorities set by the Board.

Colleagues

The Yorkshire Water Board receives regular insight into the views of colleagues from the Colleague Engagement Forum, which has met six times during the year. There is an open invitation to all Board members to attend any of the meetings, with eight of the 11 directors attending at least one Forum meeting this year. The Forum is made up of colleagues from across the business, representing all areas of the organisation, and the agenda is set based on key items due to be discussed at the Board or topics suggested by the Forum members. Forum members are encouraged to be as open and candid as possible and the minutes are available to all colleagues and the Board for information.

We also carry out a colleague engagement survey twice a year which seeks to understand the views of our colleagues across multiple topics. This includes the opportunity to comment on any of the questions being asked. The survey in late-2020 led to over 32,000 comments being received from 3,303 responses. These were summarised and shared with the Board for information, with some being quoted verbatim to give the Board a clear understanding of the sentiment. This information has fed into Board discussions on a number of different topics.

Customers and communities

The Board receives monthly performance updates on customer metrics and has considered customer experience in depth at both the Board and the Yorkshire Water Social Value Committee. This has included hearing a sample of customer calls and considering how interactions with Yorkshire Water impact upon the customer, which in turn has fed into discussions around the customer experience strategy.

Suppliers and partners

The Board is regularly asked to approve procurement decisions, and as part of that considers the impact of Yorkshire Water on its suppliers and strategic partners.

During the year the Yorkshire Water Health and Safety Committee invited a partner to join a meeting so that Committee members could hear first-hand of their experience of working with Yorkshire Water from a health and safety perspective, and how Yorkshire Water might improve its approach to better support suppliers and partners in their work.

Other stakeholders

Given what we do as a business, we have a broad range of stakeholders from a variety of backgrounds, including charities, local authorities, customer bodies, landowners, government departments, environmental bodies, regulators, unions, and other utility companies.

Yorkshire Water has a Corporate Affairs team within the business which is responsible for handling our relationships with our key stakeholders, and which reports regularly to the YWLT and Board on the status of these relationships and the key messages being received from the different stakeholder groups. This enables the YWLT and Board to factor stakeholder interests into decisions made, both on a day-to-day basis and at Board level. A number of the YWLT members, including the executive directors, are also directly involved in the relationships with key stakeholders and are therefore able to bring first-hand knowledge of the concerns of these stakeholders back to discussions at both the YWLT and Board.

Our shareholders

We have four ultimate shareholders and all are represented on the Board of Eurobond. 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 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 in the Directors report.

Case study: Covid-19

For the first three months of the financial year there were regular Covid-19 meetings held by the YWLT which had standing agenda items on 'protecting the public', 'protecting our people' and 'protecting our reputation', before moving on to operational matters. Protecting the public and our people covered health, safety and wellbeing as well as the financial support that could be offered to customers, colleagues, and suppliers at such a difficult and unprecedented time: for example through loans to colleagues, payment holidays for customers and shorter payment terms to smaller suppliers. The Yorkshire Water Board received the minutes of these meetings and further regular updates on every Board call. They provided significant support and challenge to the YWLT to ensure that everything possible was being done to ease the impact of Covid-19 on colleagues, customers, and suppliers - emotionally, physically, and financially.

How does the Board consider the reputation of Yorkshire Water for high standards of business conduct?

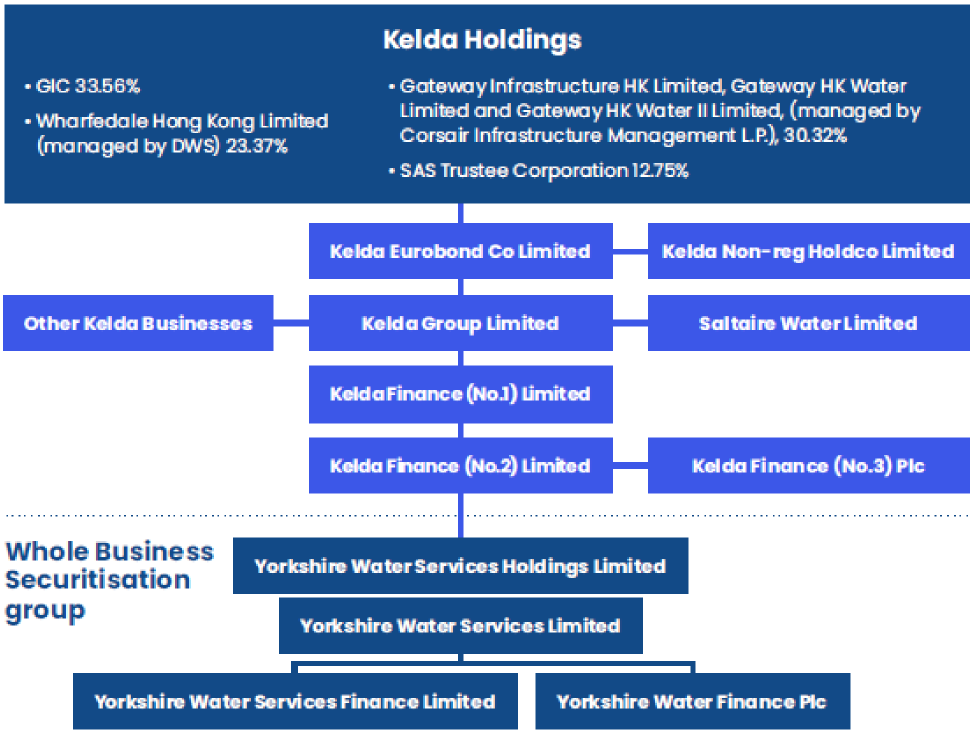
Trust is extremely important for all businesses, but particularly when operating in a monopoly as we do in our household business. It is critical that our stakeholders trust us, and so we believe it is very important that we maintain high standards of business conduct in all that we do. This forms part of our Customer Promise launched in the year, which aims to ensure that our customers can rely on us.

We seek to be open and transparent in the data that we share and report openly on our performance. Our Board receives assurance around the information it receives through various means, including internal audit reports, external assurance reports or from the Board Committees, which have the capacity to scrutinise information more closely before it is discussed by the Board. A reputation dashboard is shared with the Board on a quarterly basis which sets out stakeholder sentiment and customer perception. We have a Code of Ethics which sets out the ethical standards which are expected of all those working on behalf of Yorkshire Water. This was reviewed and updated towards the end of the year under review and will be relaunched in the summer, following review and approval from the Yorkshire Water Board.

Our corporate structure

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

Kelda Group corporate structure at 31 March 2021



Summary of group company activities

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

Kelda Holdings Limited – the ultimate parent undertaking for the group. Whilst Kelda Holdings Limited is incorporated in Jersey, it is wholly and exclusively resident for tax in the UK.

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

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

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

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

Saltaire Water Limited – this was the acquisition vehicle for the purchase of Kelda Group Limited's shares (formerly Kelda Group Plc) in February 2008. The shares of Kelda Group Limited are now held by Eurobond. The company was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

Other active Kelda businesses

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

- **TSWG** – offered water and wastewater retail and added value services to non-household customers across the UK up to 1 October 2019. The non-household retail business was sold to Business Stream on this date. TSW continues to provide services to Business Stream under a transition services agreement.
- **Keyland** – manages the group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- **KTM** – provides vehicle operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

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

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

Yorkshire Water - 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 ARFS publication refers.

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

Whole Business Securitisation

Yorkshire Water has had a well-established financing structure, known as a WBS, since 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 which is in the long-term interest of customers.

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 companies are incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.

Delivering and governing our investment programmes

Our Board Investment Committee (BIC) governs the effective and efficient delivery of our investment programmes and deliver best value for customers and the business. Our investment programmes help us maintain and enhance our operational efficiency and the resilience of Yorkshire's water and wastewater infrastructure. We are increasingly focused on how we ensure the most sustainable investment choices.

Tangible asset capital additions for 2021 were £448.3m (2020: £484.3m) (see note 11 to the Financial Statements). Our programme of investment has supported the delivery of our service level PC improvements required to meet our stretching FD targets, as well as start early investigations to define the appropriate solutions to deliver our large Water Industry National Environment Plan (WINEP) programme in future years.

Managing and governing our borrowing requirements

Our financing 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 team on behalf of Yorkshire Water and other companies in the Kelda Eurobond Limited group (Kelda group).

Our operations and investments are financed through a combination of retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation, explained in our Corporate Structure later in this Strategic Report, funds raised may be lent to or from Yorkshire Water 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:

- Repaid £40.6m of bilateral loan facilities; and
- Renewed liquidity facilities in March 2021 at £220.8m with six banks, which are required in part to cover Yorkshire Water's operating and maintenance costs and its debt service obligations.

On 20 April 2021, Yorkshire Water Finance plc agreed terms for the issue of £350.0m of sustainable bonds with a tenor of 11 and half years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m revolving credit facility.

To date, £1,200m of debt financing has been raised in accordance with our SFF, which aligns the company's financing with its long-term strategy and values as discussed earlier in this Strategic Report. The majority of Yorkshire Water's debt will continue to be issued off this framework, with reporting aligned to our innovative Six Capitals approach to give stakeholders an insight into the impacts of the group and its investments.

Total borrowings of the group were £7,461.2m as at 31 March 2021 (2020: £7,412.2m) and net debt was £7,225.2 at 31 March 2021 (2020: £7,089.0m). The maturity profile of our borrowings and further detail on net debt are set out in note 20 of the Financial Statements.

As at 31 March 2021, Yorkshire Water's RCV, which is one of the components for setting customers' bills, was £7,024.3m (2020: £6,950.5m).

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 2021, Yorkshire Water Financing Group's (YWFG) (being Yorkshire Water Finance Plc, Yorkshire Water and Yorkshire Water Services Finance Limited) Senior RAR was 77.7% (2020: 77.8%).

Managing financial risk

Treasury operations are governed by guidelines for the management of interest rate risk, foreign exchange risk, exposure to fluctuations in the rate of inflation and the use of financial instruments. A broad portfolio of debt is maintained, diversified by source and maturity, designed to ensure there are sufficient funds available for operations. Treasury policies and procedures are incorporated within our financial control procedures.

The long-term sustainability of the group's financing is of primary importance. Levels of debt and associated measures, such as gearing and interest cover, are monitored frequently and forecast against levels defined in financing documents and those needed to protect the company's credit ratings. These forecasts take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions. We have provided more information about credit ratings later in this section.

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 have been 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 is being 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 the company's portfolio of inflation-linked swaps ranges from 2026 to 2063. With long-term expectations of LIBOR continuing at low levels, the swaps held by the group gave rise to a negative fair value at 31 March 2021 of £2,199.7m (2020: £2,099.6m). See note 20 of 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 the exposure to commodity price risk, especially energy prices. The aim is 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 2021, Yorkshire Water has fixed over 40% of its wholesale energy costs for AMP7, including 93% for the 2021 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 and its financing subsidiaries have credit ratings assigned by three rating agencies. These provide an external view on creditworthiness for our debt investors. The latest published ratings are as follows:

Credit rating agency	Class A rating	Class B rating	Outlook	Date of publication *(latest available)*
Fitch	A-	BBB-	Stable	June 2021
Moody's	Baa2	Ba1	Negative	May 2021
S&P	A-	BBB	Stable	April 2021

On 3 February 2021, following a review of the mark-to-market liabilities of index linked derivatives held by UK regulated network companies, Fitch downgraded its Class B rating from BBB to BBB-.

Following publication of the CMA's final report

- On 14 April 2021, S&P published an update and affirmed its ratings whilst changing its outlook to stable from negative.
- On 9 June 2021, Fitch published an update and affirmed its ratings with an unchanged stable outlook.

On 12 May 2021, Moody's withdrew its Baa2 corporate family rating for its own business reasons.

The most recent credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water and the other companies within the YWFG can be found on our group website at 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;
- 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. Our overseas companies were established for reasons not driven by tax. All active companies in the Kelda Group are wholly and exclusively resident for tax purposes in the UK.

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.

A copy of the tax strategy adopted by the Board is publicly available at: https://www.yorkshirewater.com/about-us/tax/. It provides further detail on our approach to tax risk management and governance arrangements.

Corporation tax

The accounting tax credit included in these statements of £7.5m (2020: £28.0m charge) 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 2020 and 2021 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
- Affecting 2020 only, changes in enacted future tax rates that affected the expected future tax payable when temporary differences were expected to reverse. The cancellation of the anticipated reduction in the Corporation Tax rate to 17%, such that it remained at 19%, increased the group's deferred tax liability that it had to provide for. Although the March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023, this

rate has not been substantively enacted at the balance sheet and therefore there is no movement to reflect as a result.

A full reconciliation of the group tax charge for the year is contained in note 9 to the Financial Statements. The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & 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 judgement together with assistance and opinions from professional advisors. There are no current material uncertainties.

Our financial performance

	2021 performance	2020 performance
Revenue Income receivable for services provided	£1,116.8m	£1,066.5m
Operating profit Revenue less operating expenses	£253.7m	£213.2m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation, and exceptional items *- Reconciled to Operating Profit later in this section*	£610.2m	£560.9m
Net liabilities	(£814.4m)	(£711.7m)
Net debt[#1] See note 20 of the Financial Statements	£7,225.2m	£7,089.0m

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

Below we explain the highlights of our financial performance:

- The increase in revenue to £1,116.8m (2020: £1,066.5m) is largely due to allowed inflationary price increases and recovery of amounts under-billed in 2020. Whilst there were significant variations for household and business customers caused by Covid-19 lockdowns impacting consumption, the net impact of these variations overall was small
- Operating costs continue to be tightly managed with total costs (excluding exceptional items) of £835.2m (2020: £845.2m) for the year. Operations have experienced various pressures on expenses in 2021, including dry weather in summer, weather incidents in January 2021, increased insurance premiums, and additional provisions for household bad debts as noted below.
- Net exceptional costs of £27.9m (2020: £8.1m) include £11.7m (2020: £nil) attributed to exceptional operational costs and exceptional payments to delivery partners during the Covid-19 pandemic, and £10.5m (2020: £1.1m) attributed to our referral of the FD to the CMA. A further £8.7m of exceptional costs come from costs associated with strategic business review and efficiency measures (2020: £2.4m). Exceptional insurance income, net of mitigation costs, relating to prior year weather events offset the exceptional costs by £2.5m (2020: £8.0m costs). In 2020 exceptional costs of £11.5m were offset by a profit on the sale of our non-household retail business. Also offsetting costs incurred is £0.5m of deferred consideration from a previous sale of a non-regulated entity.
- The above movements result in an increase in adjusted EBITDA to £610.2m (2020: £560.9m). A reconciliation between this and the statutory measure can be found overleaf. Operating profit has also increased, the £40.5m increase is the net impact of the aforementioned factors.
- The net finance costs have increased to £410.4m (2020: £377.4m). This was predominantly a result of adverse fair value movements in the current financial year. The total fair value adjustments are a net £101.6m expense (2020: £40.2m expense). See the *Managing Financial Risk* section below for more detail.

- We are therefore reporting a loss for the financial year for 2021 of £149.1m (2020: £192.2m loss). This represents an adjusted loss for the financial year of £44.1m (2020: £153.5m loss). A reconciliation between this and the statutory measure can be found below.
- We have revalued infrastructure assets as at 31 March 2021 based on the value in use. This revaluation increased the asset value by £217.0m (2020: £178.5m reduction) 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:

	2021 £m	2020 £m
Group operating profit	**253.7**	213.2
Add back depreciation and impairment (note 11)	**302.6**	316.2
Add back amortisation of intangible assets (note 10)	**26.0**	17.0
EBITDA including exceptional items	**582.3**	**546.4**
Add back exceptional items (note 6)	**27.9**	8.1
Add back Covid-19 related costs*	**-**	6.4
Adjusted EBITDA	**610.2**	**560.9**

*Due to the nature and quantum of certain specific one-off Covid-19 costs in 2021 these have been classified as exceptional items. Increases to 'business as usual' operating costs as a result of Covid-19 have not been classified as exceptional for 2021. Please see note 6 to the *Financial Statements* for further information.

Adjusted loss is calculated as follows:

	2021 £m	2020 £m
Loss on ordinary activities before taxation (continuing)	**(156.7)**	(164.2)
Add back exceptional items (note 6)	**27.9**	8.1
Add back/(deduct) fair value movements (note 20)	**101.6**	40.2
Total	**(27.2)**	**(115.9)**
Effects of taxation	**(17.0)**	(37.6)
Adjusted loss	**(44.2)**	(153.5)

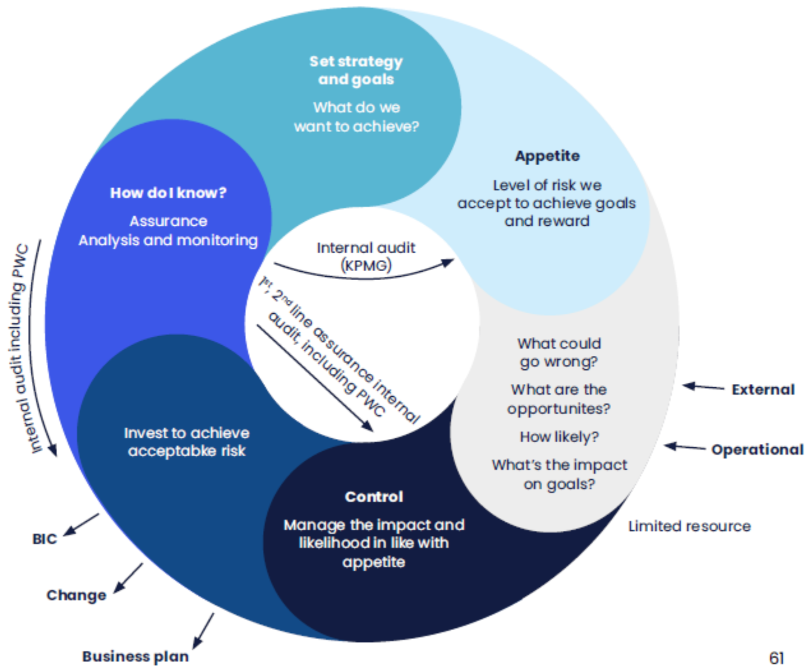
The adjusted results exclude exceptional items and fair value derivative movements. Fair value derivative movements are excluded from underlying loss due to their magnitude. Further information on the derivative fair value movements can be found in note 20.

Managing risks and uncertainties

Strong risk management allows Kelda group to consistently meet customer needs whilst keeping our colleagues safe and well, whatever happens. It is at the heart of our ways of working, improving our ability to predict and prepare for challenges. It is not about refusing to take risks. We accept the balance of risk that our Board agrees will allow us to transform the way we work and achieve our goals now and long into the future.

Our risk management framework

Our risk management cycle promotes operational and strategic resilience through early identification of what could go wrong and putting controls in place to mitigate the effects before they happen. Given the life-critical nature of the service we provide we expect a strong control environment with effective response plans in place if risk escalates or materialises.



The Board sets our purpose, ambition and long-term goals and agrees the nature and extent of risk that it is willing to take in pursuit of those goals, our risk appetite. It has responsibility for ensuring risks are managed effectively across the business, working with the Audit and Risk Committee. We acknowledge the uncertainty in our operating environment and use our subject matter experts to scan and capture the potential impact of this. Risk identification is embedded in all our operational systems and a standard risk assessment matrix is used to ensure consistent measurement. Risk owners set the tolerable level for each risk and monitor early warning signs to react if the level of risk becomes intolerable. If risk is outside the Board's appetite, risk owners implement focused action plans to further reduce the likelihood of the risk materialising and its potential impact.

Our coordinated assurance programme tests the design and operation of our control framework and the delivery of plans, recommending improvement actions where needed. The Audit and Risk Committee maintains oversight of the achievement of actions as well as the quality of the risk and assurance processes.

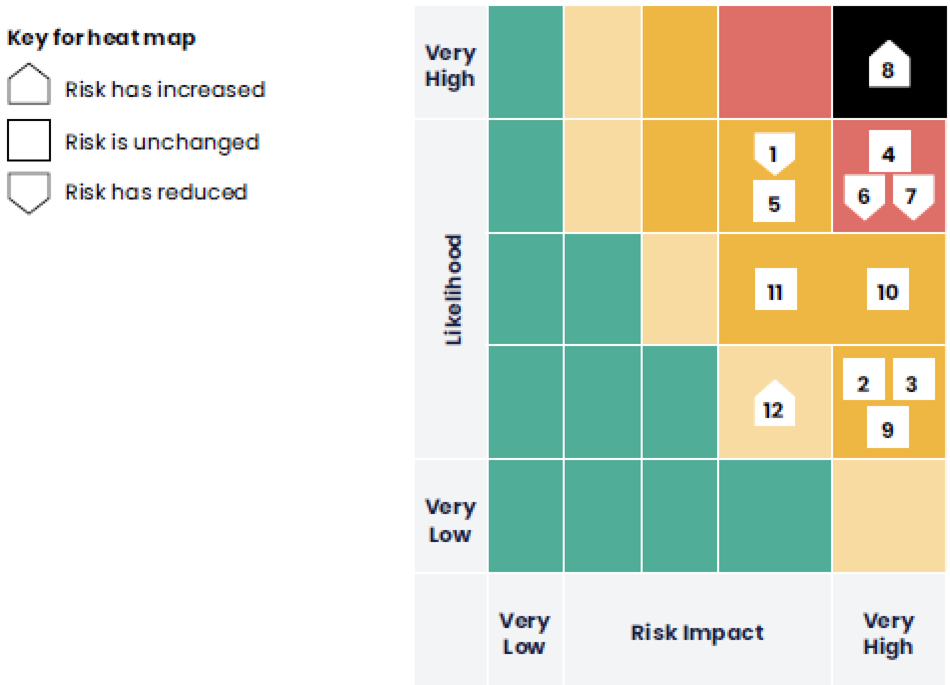
We are currently reviewing the risk and impacts of Britain's exit from the European Union (EU), the key impact identified for Kelda group is on the supply chain. The impact is manifesting in our sourcing of specific products, namely: copper, building materials and polyurethane pipes. We are looking at options for mitigating these risks.

The impact of Covid-19

Our strong risk management processes enabled us to respond swiftly to the threat of the Covid-19 pandemic last year, minimising the impact on our service to customers. We were able to test IT resilience, rehearse a comprehensive homeworking approach and quickly roll out Covid-19 safe working procedures and protective equipment for all colleagues. We have remained prudent to protect our colleagues and customers. We have set clear escalation triggers and used our incident management framework to anticipate and respond proactively to changes in Government guidelines. The assurance teams have given confidence that colleagues are following Covid-19 safe controls at all times, and drive improvement if needed. This has ensured that our infection and absence rates remained low and that we have maintained good levels of service. We are managing the impact of the changes to the ways we work on other risks, most notably IT security and resilience. We continue to monitor and prepare for the broader economic impact of Covid-19 on our vulnerable customers, financial resilience, and supply chain.

Our principal risks

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite. The heat map plots our current risk exposure after controls have been applied, by impact and likelihood. The table below describes each of these risks in more detail, alongside our approach to mitigation and the change over the past year.



Principal risk	How we manage it	Change from prior year
1. Public and colleague safety _We may fail to protect the safety, health and wellbeing of our colleagues, contract partners and customers leading to harm._	The safety, health and wellbeing of our colleagues, contractors and customers is our top priority. We are proud of our improved safety performance this year, despite the pandemic. However, we are not complacent. We are working hard to improve it further, with a focus on process safety. Health and Safety matters are prioritised at all meetings of YWLT and the Board. The Health and Safety Committee drives a focus on improvement. We remain committed to our ten life-saving rules across the business, improving our safety behaviours. Our ISO45001 (Occupational Health and Safety) certified occupational health and safety management system is audited annually. A Covid-19 safe management procedure was rolled out promptly and its application has been tested continually, including whole-business standdowns. We have strengthened our support for colleague mental wellbeing through the pandemic.	The strengthened controls and focus on safe behaviours led to an improved safety performance in 2021. The level of risk has reduced.
2. Enough clean, safe drinking water _A problem with our system could cause a failure to meet the level or quality of water our customers need._	We undertake detailed water resources planning and carefully monitor demand, raw water quality and asset availability to meet our customers' needs. We use our flexible grid network to move water across Yorkshire to where it is needed. Compliance with our ISO9001 (Quality) and ISO14001 (environmental) assured operational procedures is audited annually. We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through a number of asset health measures. In 2021 we have improved our proactive maintenance programme. We are ISO55000 (asset management) certified, demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover.	This risk continues to be volatile due to its dependency on weather events and changes in demand patterns. The level of risk is unchanged.
3. Leakage _We may not achieve our goal to significantly reduce the amount of treated water that leaks from our networks._	We have improved our monitoring and analysis of the performance of our below ground network to allow us to predict and take action to prevent or reduce the impact of problems. This must be balanced with the need to supply customers with enough quality water. As well as maintaining our ISO9001 operational procedures, we have invested in new ways of working to find potential leaks earlier and to respond quicker to reduce their impact. We have a clear capital investment programme to improve the condition of our pipes.	We are aware that the age of our network of pipes present an on-going risk. This risk is volatile to changes in the ground conditions caused by extreme changes in the weather. The level of risk is unchanged.

4. Environmental protection and flooding *We may harm the water environment through unsafe abstraction or discharge leading to pollution, or failure to adapt to flood inundation of our assets.*	The pollution incident reduction plan has focused on improving day-to-day compliance with our ISO9001 and ISO14001 assured operational procedures. We operate a risk-based prioritisation process for the maintenance and replacement or our assets. We monitor the effectiveness of our asset management through a number of asset health measure. In 2021, we have improved our proactive maintenance programme. We are ISO55000 certified demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover.	The improvement in our controls has reduced the impact of this risk in 2021. However, we are aware of the risk the age of our sewer network and changing regulation continue to present. The level of risk is unchanged.
5. Climate change and carbon transition *We may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets.*	The steps we are taking to deal with the short-term impact of changing weather events have been noted in risks two, three and four. We are introducing BS65000 (organisational resilience) compliant policies and procedures. We are leading the sector in reducing our carbon footprint. We are improving renewable energy generation through our bio-resources and solar programmes whilst reducing our energy use through new technology. We are collaborating to develop resilient low asset solutions and ways of working, spearheaded by the Living with Water partnership in Hull. We are using our substantial land bank to lead the way in sustainable land management.	The improvements we are looking to introduce to our ways of working will improve our resilience to climate change. The level of risk is unchanged.
6. Customer experience and stakeholder trust *We may not consistently meet the expectations of our customers by failing to deliver on our commitments.*	Our customer experience strategy was created with our customers so that we understand and capture what is really important to them. We continue to capture customer views to inform our plans through our Customer Forum and online Customer Panel consultation. Meeting customer expectations is at the heart of our transformation plan and our daily performance management and prioritisation processes. Our operational policies and procedures align to the achievement of customer service objectives. We continue to improve our support to customers in vulnerable circumstances. We are committed to eradicating water poverty in Yorkshire. We have reviewed our processes in light of the impact of Covid-19 on customers' ability to pay.	Our improved day-to-day controls have mitigated the likelihood of this risk. The level of risk has reduced.
7. Financial sustainability and economic uncertainty *We may be unable to access funding at acceptable market rates due to market uncertainty following the Covid-19 pandemic and EU Exit or a downturn in our credit rating.*	The Board has approved treasury policies to manage this risk, see the *Managing and governing our borrowing requirements* section. Financial restructuring programmes are providing headroom, to support resilience. Our five-year plan identifies our financing requirements. We are committed to maintaining our credit ratings and we manage our expenditure and funding accordingly. The BIC oversees all capital expenditure and the annual business plan and budget is set in in line with the plan. We maintain clear financial policies and procedures. Arrangements are in place to support customer affordability and managing customer debt.	Strong treasury management, financial restructuring, as well as the outcome to the CMA process, have mitigated this risk. The level of risk has reduced.

8. Security, cyber and data resilience _We may fail to keep our key business systems and information secure due to a malicious attack or failure of cyber security. Sensitive data could be released in breach of the Data Protection Act, GDPR or Environmental Information Regulations (EIR)._	Our Security Steering Group monitors the delivery of our Information Security policy and procedures. It is committed to the continuous improvement of our cyber controls and culture. The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. We are improving the resilience of our infrastructure through targeted investment. We test our back-up and recovery procedures. There is an ongoing training, development, and communication programme for all colleagues to improve security culture and compliance. A range of information and cyber security projects are further improving the control environment, to achieve GDPR, NISD and other external standards.	There has been an escalation in malicious attacks globally during the pandemic. The level of risk has increased.
9. People: talent, culture, succession, and retention _Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future._	We put people at the heart of everything we do. We have demonstrated commitment to our core behaviours through our response to the pandemic, focusing on clear, regular communication as well as colleague wellbeing. Our myDeal programme is a suite of initiatives aimed at transforming our succession planning and talent development, people policies and procedures, benefits and working arrangements. The programme is well under way and will continue into 2022. Our HR policies and procedures are published on our Intranet. The responsible leaders' framework defines our capabilities, and achievement is monitored via our annual performance management cycle.	There is increased uncertainty in the talent market. The myDeal programme is mitigating this risk and should significantly reduce it in 2022. The level of risk is unchanged.
10. Organisational transformation _We may fail to achieve the transformation required to meet our customer expectations and achieve our objectives._	We have significantly enhanced our Enterprise Change capability in 2021. We have established a monthly Change Board which oversees the successful delivery of the Change portfolio. This is supported by an Enterprise Change function which has a clear framework to ensure that business design meets our customer needs and the totality of the Change programme delivers the expected benefits.	We acknowledge the scale of change needed to deliver our ambitions for our customers and the environment. The level of risk is unchanged.
11. Political, legal, and regulatory change _We may fail to adapt quickly to externally driven political and regulatory change._	Our Corporate Affairs and Regulation teams lead our engagement with policy makers and the water sector to ensure the needs of our customers are understood. This provides early visibility of regulatory and statutory change allowing a timely response. We have also enhanced our approach to scanning the horizon for early sight of potential change. Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations and allows an agile response to change. A suite of cross-business training and development promotes awareness of new obligations.	Despite ongoing change in our operating environment, our strong relationships and management arrangements continue to mitigate this risk. The level of risk is unchanged.

12. Governance, conduct and organisational resilience *We may not achieve the standard of conduct and reporting expected by our stakeholders.*	We are committed to reporting clearly, openly, and accurately to all our stakeholders. Our coordinated internal and external assurance regime provides confidence to our leaders, customers, and regulators that we achieve this. We have re-established our values and expected behaviours to meet customer needs with integrity. We continue to promote our Speak Up policy and investigate and learn from all issues raised. We have reviewed our Code of Ethics with the Board and are cascading the requirements through the business. We have clarified our risk governance and responsibilities, to provide a clear line of sight to the Board. We are aware of the White Paper on the Corporate Governance Code and the potential for a new regulator. We are mapping the impact and assessing the risk, including our supply chain. We are confident that we have foundations for a positive response.	We are responding positively to the increased public scrutiny of the conduct and governance of UK business. The level of risk has increased.

The Strategic Report was approved by a duly authorised committee of the Board of directors on 15 July 2021 and was signed on its behalf by:

Liz Barber

Liz Barber

Chief Executive Officer

Principles of Corporate Governance

The Board has clear obligations to the group shareholders and other stakeholders, including the customers, suppliers, local authorities, regulators and to the environment, on which we are dependent for our water resources now and in the future. To ensure we build and maintain the trust of all of our key stakeholders we seek to operate with exceptional governance, doing the right thing and remaining open and accountable at all times.

This report describes how the Board of the group discharge their duties in respect of corporate governance. Further information on how Yorkshire Water, as the principal trading subsidiary of the group, approaches corporate governance can be found in the ARFS of Yorkshire Water.

Group structure

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

The simplified group structure is set out in the Strategic report.

Leadership

The Board composition

The Board normally comprises an independent non-executive Chairman, eight investor non-executive directors and two executive directors. One of the executive directors, Chris Johns, was appointed to the Board as Chief Financial Officer (CFO) on 1 June 2020. In addition, with effect from 1 July 2021, Vanda Murray was appointed to the Board as an independent non-executive director and will step up to the role of Chair later in the year following a handover from Anthony Rabin. Anthony will retire from the Board later in the year having neared the end of his deemed independence, as defined in the UK Corporate Governance Code.

The composition of the Board at 31 March 2021 was as follows:

Independent Non-Executive Chairman – Anthony Rabin

Executive directors

Liz Barber	- CEO
Chris Johns	- CFO

Investor Non-Executive Directors

Simon Beer	- SAS Trustee
Svetlana Barthelemy	- GIC
Andrew Dench	- GIC
Vicky Chan	- Corsair
Mike Osborne	- Corsair
Hari Rajan	- Corsair
Scott Auty	- Pan-European Infrastructure Fund
Isabelle Caumette	- Pan-European Infrastructure Fund

Alternative non-executive directors

Martine Legare	- Alternate for Michael Osborne (Corsair)

Antonio Herrera - Alternate for Vicky Chan (Corsair)
Pete Stalley - Alternate for Simon Beer (SAS Trustee)

The biographies of the Board can be found in the Directors report.

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

Liz Barber and Chris Johns also hold directorships within other Kelda Group companies.

Anthony Rabin is the independent Chairman of Yorkshire Water and Kelda Holdings Limited.

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

Board structure and attendance

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

Board Attendance	Board	
	Attended	Out of possible
Anthony Rabin	3	3
Scott Auty	3	3
Liz Barber	3	3
Svetlana Barthelemy	2	3
Simon Beer	2	3
Isabelle Caumette	2	3
Vicky Chan	3	3
Andrew Dench	2	3
Chris Johns	3	3
Mike Osborne	3	3
Hari Rajan[2]	3	3

Board responsibilities

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

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

Conflicts of interest

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

Appointment of Directors

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

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

Directors’ training and development

The Board receives regular updates on governance-related matters and more formal training where appropriate. Training is available to directors on, and after, their appointment to meet their requirements. The Chairman keeps under review and agrees the training and development needs of the directors, which is organised by the Company Secretary.

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

Directors have access to the Company Secretary who is responsible for ensuring that Board requirements are met and procedures are followed in accordance with good governance. She also facilitates the flow of communication between senior management and the non-executive directors.

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

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

Board effectiveness review

The Board of Yorkshire Water conducts an annual review of the performance of the Board, its committees and directors. In 2021 this evaluation was internally facilitated by the Company Secretary. Whilst the Board of Eurobond is not required to undertake such a review, it reviews actions arising from the evaluation as they relate to the operation of the Board and in light of the investor representation on the Yorkshire Water Board.

Board Diversity

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

The Board continues to closely monitor its diversity, particularly in relation to gender and ethnicity. As at 31 March 2021, the Board of Eurobond had a female Board representation of 36%.

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

Gender, ethnicity and age statistics for the group are provided in the Strategic Report in our *Putting People First* section.

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 2021 and up to the date of approval of the 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 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 monitor 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 2020/21 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 Yorkshire Water Audit and 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.
- Delivery of the risk based Internal Audit plan provides independent assurance to the Board and senior leaders.

The Board confirms that it has reviewed the system of internal control. It has received the reports from the YWLT 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.

The directors present their report and the audited consolidated Financial Statements for the group for the year ended 31 March 2021. The Directors' Report should be read in conjunction with the Strategic Report. The Corporate Governance Report forms part of this Directors' Report.

Financial results for the year

The loss for the financial year was £149.2m (2020: loss of £192.2m).

Dividends

No dividends were paid during the year (2020: £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 UK, is responsible for both water and wastewater services.

Other businesses include the UK non-regulated water and wastewater services business, Loop and Keyland, a company which primarily develops surplus property assets of Yorkshire Water.

As noted in our Strategic Report, the sale of the Yorkshire Water non-household retail customer base took place on the 30 September 2019 to Scottish Water Business Stream Ltd. Under the TSA Business Stream have retained TSWG to continue to support the delivery of NHHR services to their Yorkshire customers until 30 September 2021. At this point a six-month migration period to 31 March 2022 will see all customer support services transfer to Business Stream operations.

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.

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

Directors

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

Anthony Rabin (Chairman)
Scott Auty
Liz Barber
Svetlana Barthelemy
Simon Beer
Isabelle Caumette
Vicky Chan

Andrew Dench
Chris Johns
Vanda Murray (appointed 1 July 2021)
Mike Osborne
Hari Rajan

Alternative non-executive directors
Martine Legare
Antonio Herrera
Pete Stalley

Biographies of the directors

Anthony Rabin
Anthony was with Balfour Beatty plc, the international infrastructure group, for 17 years until June 2012, including six years as the CFO and four years as Deputy Chief Executive. He has also held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group) and Morgan Grenfell & Co (Senior Assistant Director). Anthony is a Fellow of the Institute of Chartered Accountants in England and Wales, an English barrister and an Honorary Research Fellow at the University of Hull.

Anthony was appointed to the Board as a non-executive director and interim Chairman with effect from 1 June 2016 and Chairman from 9 September 2016. He was also appointed as independent non-executive Chairman of Yorkshire Water and Kelda Holdings Limited on this date. Anthony will retire from the Board later in 2021, to be replaced by Vanda Murray.

Scott Auty
Scott is a London based Partner in DWS's infrastructure investment business, Europe, and is responsible for the origination and execution of infrastructure investment opportunities as well as the ongoing management of the acquired assets. He is a member of the investment committee for the three European infrastructure funds managed by DWS. Prior to joining DWS's infrastructure business in 2005, Scott started his career at N M Rothschild & Sons' investment banking division where he was a specialist in the utilities and natural resources sectors.

Scott joined the Board on 10 December 2010 and joined the Board of Yorkshire Water as an investor non-executive director in September 2017.

Liz Barber
Liz was appointed as Director of Finance and Regulation of Yorkshire Water and Group Finance and Regulation Director of Eurobond in November 2010. She then moved to the role of Chief Executive Officer for both companies in September 2019.

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

Liz is a lay member and Deputy Pro-Chancellor of the University of Leeds, a non-executive Director of Cranswick PLC and Chair of the Yorkshire and Humberside Climate Commission. Liz was a non-executive Director and Chair of the Audit Committee for KCOM Group PLC from 2015 to 2019.

Svetlana Barthelemy
Svetlana was appointed to the Board as a non-executive director on 22 July 2019. Svetlana is a vice president in GIC's Infrastructure team, based in London. She is responsible for identifying and analysing infrastructure investment opportunities, the execution of transactions, and the ongoing management of acquired businesses. Svetlana is also a non-executive director on the Board of Railpool (Rail freight locomotives leasing, Germany). Prior to GIC, she worked for MIRA (Macquarie Infrastructure and Real Assets) in their European infrastructure team.

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

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

Isabelle Caumette
Isabelle was appointed to the Board as a non-executive director on 27 January 2020. Isabelle is a Vice President of DWS Infrastructure. She is responsible for identifying and analysing infrastructure investment opportunities, the implementation of transactions, and the ongoing management of acquired businesses. Prior to joining DWS, Isabelle worked as a consultant at The Boston Consulting Group, advising clients on their strategy, in Paris and New York. She also worked as an internal auditor and consultant in "Inspection Generale" at Société Générale on projects in France, Ghana and India.

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

Andrew Dench
Appointed to the Board as a non-executive director on 30 September 2015, Andrew is a Senior Vice President in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio. Prior to joining GIC, Andrew was deputy CEO / CFO of Veolia Water, UK, Ireland and Northern Europe, CFO of Electricity North West and Head of Corporate Finance and Change at London Stock Exchange Group. While at Veolia, he was a non-executive Director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan Stanley where he was focused on project finance, M&S, utilities and the natural resources sector.
Andrew is a non-executive director on Boards for Terega (Gas transportation and storage, France), Duquesne Light and Power (Electricity transportation and distribution, US), Greenko (Renewal generation, India) and Raffles Infra Holdings Limited (Infrastructure investment, Asia).

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

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

Chris Johns

Chris was appointed to the Board as CFO on 1 June 2020. Chris joined the company from Northumbrian Water, where he had been the Finance Director since 2013. Prior to his role at Northumbrian Water, Chris was the Finance Director of Northern Gas Networks for eight years. Before that he held several senior financial management positions in the financial services sector, in both Yorkshire and London, including with Provident Financial plc and Morgan Stanley. Chris is a member of the Institute of Chartered Accountants in England and Wales.

Mike Osborne

Appointed to the Board as a non-executive director on 31 January 2013, Mike is a principal at Corsair Infrastructure Management, a business unit of Corsair Capital. He is also a director of Itínere Infraestructuras, S.A., a toll road operator in Spain. Mike has 18 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

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

Hari Rajan

Hari was appointed to the Board as a non-executive director on 25 June 2019. Hari is a Partner of Corsair Capital and the Head of Corsair Infrastructure Partners. He is also the Chair of the Investment Committee of Corsair Infrastructure Partners and a member of the Investment Committee of Corsair Capital. Hari joined Corsair Capital in 1999 and is based in New York.

Vanda Murray

Vanda was appointed to the Board on 1 July 2021 as an independent non-executive director and Chair designate. She will step up into the role of Chair later in 2021 following a handover from Anthony Rabin. Vanda is a non-executive Chair of Yorkshire-based Marshalls plc and is the Senior Independent Director and Chair of the Remuneration Committee at Bunzl plc. She is also a non-executive Director at Manchester Airports Group, where she chairs the Remuneration and Corporate Social Responsibility Committees. Vanda brings with her extensive experience of business leadership in a number of different sectors and was an outstanding candidate following a very thorough recruitment process.

Shareholders

As at the 31 March 2021, 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

Research and development

The group undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2021 £2.8m (2020: £4.0m) 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, 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 2021 the carrying value of the infrastructure assets has increased by £217.0m (2020: £178.5m decrease) 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 £100 (2020: £2,500) on such activities.

Annual General Meeting

The shareholders of Eurobond 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 directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 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. Please see note 2 of the Financial Statements for full going concern considerations.

Post balance sheet event

On 20 April 2021, Yorkshire Water Finance plc agreed terms for the issue of £350.0m of sustainable bonds with a tenor of 11.5 years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m revolving credit facility.

Kelda Finance (No.2) Limited successfully raised £77.0m in new loan and note facilities on 18 May 2021. Proceeds were used alongside surplus funds to refinance an existing loan due in August 2021 and pay associated fees.

Independent auditors

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

Disclosure of information to auditors

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

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

Statement of directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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 15 July 2021 and signed on its behalf by:

Liz Barber
Chief Executive Officer

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Company secretary: Kathy Smith
Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Kelda Eurobond Co Limited
Consolidated statement of profit or loss
for the year ended 31 March 2021

	Note	**2021 £m**	2020 £m
Revenue	*3*	**1,116.8**	1,066.5
Operating costs (including exceptional items of £27.9m (2020: £8.1m) (note 6))	*5*	**(863.1)**	(853.3)
Operating profit from continuing operations		**253.7**	213.2
Finance income	*8*	**9.8**	7.0
Finance costs before fair value movements		**(318.6)**	(344.2)
Fair value movements		**(101.6)**	(40.2)
Finance costs	*8*	**(420.2)**	(384.4)
Loss before taxation		**(156.7)**	(164.2)
Tax credit/(charge)	*9*	**7.5**	(28.0)
Total loss for the financial year		**(149.2)**	(192.2)

The notes on pages 69 to 141 form an integral part of the Financial Statements.

Kelda Eurobond Co Limited

Consolidated statement of comprehensive income and expense

for the year ended 31 March 2021

	Note	**2021 £m**	2020 £m
Total loss for the year		**(149.1)**	(192.2)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of infrastructure assets before taxation	*11*	**217.0**	(178.5)
Deferred tax movement on revaluation of infrastructure assets	*9*	**(41.2)**	18.5
		175.8	(160.0)
Remeasurement of defined benefit pension before taxation	*18*	**(167.5)**	159.6
Remeasurement of employer funded retirement benefit scheme before taxation		**(1.7)**	1.0
Deferred tax in relation to retirement benefits	*9*	**31.9**	(31.0)
		(137.3)	129.6
Items that may be subsequently reclassified to profit or loss:			
Gains/(losses) on hedges taken to equity before taxation		**9.7**	(2.8)
Deferred tax movement in relation to hedges		**(1.8)**	0.5
		7.9	(2.3)
Other comprehensive income/(charge) for the year, net of tax		**46.4**	(32.7)
Total comprehensive loss for the year		**(102.7)**	(224.9)

Kelda Eurobond Co Limited
Consolidated statement of financial position
as at 31 March 2021

	Note	2021 £m	Restated[1] 2020 £m	Restated[1] 2019 £m
Non-current assets				
Intangible assets	10	**1,206.0**	1,209.3	1,163.6
Property, plant and equipment	11	**8,250.7**	7,884.7	7,943.8
Right of use assets	11	**58.5**	64.6	-
Investments in associated undertakings and joint ventures		**0.7**	0.7	0.8
Loans to associated undertakings and joint ventures		**2.2**	2.0	2.0
Trade and other receivables	12	**141.9**	138.5	134.6
Derivative financial assets	20	**202.4**	290.7	231.8
Post-employment benefits surplus	18	**95.3**	245.7	73.6
		9,957.7	9,836.2	9,550.2
Current assets				
Inventories		**4.8**	3.5	3.1
Trade and other receivables	12	**272.4**	271.9	239.8
Tax assets		**2.4**	2.4	2.4
Derivative financial assets	20	**29.6**	-	-
Cash and cash equivalents	13	**236.0**	323.2	70.1
		545.2	601.0	315.4
Total assets		**10,502.9**	10,437.2	9,865.6
Current liabilities				
Trade and other payables	15	**(414.9)**	(403.7)	(366.2)
Deferred grants and contributions on depreciated assets	16	**(11.8)**	(10.8)	(11.0)
Borrowings	13	**(599.0)**	(370.8)	(2,296.7)
Lease liabilities	14	**(6.0)**	(4.1)	-
		(1,031.7)	(789.4)	(2,673.9)
Non-current liabilities				
Borrowings	13	**(6,862.2)**	(7,041.4)	(4,572.0)
Trade and other payables	15	**(11.5)**	(4.7)	(6.8)
Derivative financial liabilities	20	**(2,343.9)**	(2,258.2)	(2,208.7)
Deferred grants and contributions on depreciated assets	16	**(503.1)**	(484.1)	(455.6)
Provisions for other liabilities and charges		**(3.1)**	(2.7)	(1.8)
Lease liabilities	14	**(85.0)**	(95.1)	-
Deferred income tax liabilities	17	**(476.8)**	(473.3)	(433.7)
		(10,285.6)	(10,359.5)	(7,678.6)
Total liabilities		**(11,317.3)**	(11,148.9)	(10,352.5)
Net liabilities		**(814.4)**	(711.7)	(486.9)

[1] Restated see note 2

Kelda Eurobond Co Limited

***Consolidated statement of financial position** (continued)*

as at 31 March 2021

			Restated[1]	Restated[1]
		2021	2020	2019
	Note	**£m**	£m	£m
Equity shares	*19*	**750.0**	750.0	750.0
Hedging reserve	*19*	**5.7**	(2.3)	-
Revaluation reserve	*19*	**255.7**	79.9	639.8
Accumulated losses		**(1,825.8)**	(1,539.3)	(1,876.7)
Total equity		**(814.4)**	(711.7)	(486.9)

The Financial Statements were approved by a duly authorised committee of the Board of directors on 15 July 2021 and signed on its behalf by:

Liz Barber

Chief Executive Officer

Kelda Eurobond Co Limited

Kelda Eurobond Co Limited

Consolidated statement of changes in equity

for the year ended 31 March 2021

	Note	**Equity shares £m**	**Hedging reserve £m**	**Revaluation reserve £m**	**Accumulated losses £m**	**Total equity £m**
Balance at 1 April 2019		**750.0**	**-**	**639.9**	**(1,876.7)**	**(486.8)**
Total comprehensive income for the year						
Loss for the financial year		**-**	**-**	**-**	**(192.2)**	**(192.2)**
Revaluation of infrastructure assets before taxation	*11*	**-**	**-**	**(178.5)**	**-**	**(178.5)**
Deferred tax on revaluation of infrastructure assets	*9*	**-**	**-**	**18.5**	**-**	**18.5**
Remeasurement of defined benefit pension before taxation	*18*	**-**	**-**	**-**	**159.6**	**159.6**
Remeasurement of employer funded retirement benefit scheme before taxation		**-**	**-**	**-**	**1.0**	**1.0**
Deferred tax on revaluation of retirement benefits	*9*	**-**	**-**	**-**	**(31.0)**	**(31.0)**
Gains 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)**	**(160.0)**	**(62.6)**	**(224.9)**
Capital reduction	*19*	**-**	**-**	**(400.0)**	**400.0**	
Balance at 31 March 2020		**750.0**	**(2.3)**	**79.9**	**(1,539.3)**	**(711.7)**

Kelda Eurobond Co Limited

Consolidated statement of changes in equity *(continued)*

for the year ended 31 March 2021

	Note	Equity shares £m	Hedging reserve £m	Revaluation reserve £m	Accumulated losses £m	Total equity £m
Balance at 1 April 2020		**750.0**	**(2.3)**	**79.9**	**(1,539.3)**	**(711.7)**
Total comprehensive income for the year						
Loss for the financial year		-	-	-	**(149.2)**	**(149.2)**
Revaluation of infrastructure assets before taxation	*11*	-	-	**217.0**	-	**217.0**
Deferred tax on revaluation of infrastructure assets	*9*	-	-	**(41.2)**	-	**(41.2)**
Remeasurement of defined benefit pension before taxation	*18*	-	-	-	**(167.5)**	**(167.5)**
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	**(1.7)**	**(1.7)**
Deferred tax on revaluation of retirement benefits	*9*	-	-	-	**31.9**	**31.9**
Gains on cash flow hedges taken to equity before taxation		-	**9.8**	-	-	**9.8**
Deferred tax movement in relation to hedges		-	**(1.8)**	-	-	**(1.8)**
Total comprehensive income for the year		-	**8.0**	**175.8**	**(286.5)**	**(102.7)**
Balance at 31 March 2021		**750.0**	**5.7**	**255.7**	**(1,825.8)**	**(814.4)**

Kelda Eurobond Co Limited

Consolidated statement of cash flows

for the year ended 31 March 2021

	Note	**2021 £m**	2020 £m
Cash flow generated from operating activities	21	**613.5**	540.8
Income taxes paid		**(0.1)**	(0.4)
Interest paid		**(175.0)**	(180.8)
Net cash generated from operating activities		**438.4**	359.6
Cash flows from investing activities			
Interest received		**9.1**	4.4
Increase in loans to associates and joint ventures		**(0.1)**	-
Net proceeds from disposal of operations		**-**	3.4
Proceeds on disposals of property, plant and equipment		**3.3**	0.7
Purchases of property, plant and equipment		**(472.7)**	(528.3)
Net cash used in investing activities		**(460.4)**	(519.8)
Cash flows from financing activities			
Borrowings raised		**(5.8)**	946.2
Redemption of preference shares		**-**	-
Repayments of borrowings		**(55.3)**	(516.0)
Amounts paid upon restructure on inflation linked swaps		**-**	-
Repayment of obligations under finance leases and hire purchase agreements		**(4.1)**	(16.9)
Net cash (used in)/generated from financing activities		**(65.2)**	413.3
Net (decrease)/increase in cash and cash equivalents		**(87.2)**	253.1
Cash and cash equivalents at the beginning of the year		**323.2**	70.1
Cash and cash equivalents at the end of the year		**236.0**	323.2

1. Authorisation of Financial Statements

The group's Financial Statements for the year ended 31 March 2021 were authorised for issue by the Board of directors on 15 July 2021, and the balance sheet was signed on the Board's behalf by Liz Barber, Chief Executive Officer. Kelda Eurobond Co Limited is a limited company incorporated and resident for tax in the UK. The registered office address of Kelda Eurobond Co 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.

Basis of accounting

The consolidated Financial Statements of Kelda Eurobond Co Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (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 2021.

The consolidated Financial Statements have been prepared under the historical cost convention except for certain categories of property, plant and equipment which are held at valuation, all derivative financial instruments and those 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 later in note 2.

Prior year restatements

In the year ended 31 March 2021, there has been a presentational change to the derivative assets and liabilities reported as at 31 March 2020. There has been a reclassification of several instruments from derivative liabilities to derivative assets, resulting in a £124.1m increase in derivative assets (and therefore non-current assets) and a corresponding increase to derivative liabilities (and therefore non-current liabilities). In addition, there has been a presentational change to reclassify £138.5m of debtors due after more than one year reported as current assets at 31 March 2020 to non-current assets, in line with the nature of the underlying loans. There has been no impact on net liabilities as a result of this reclassifications.

	Reported 2020 £m	Adj £m	Restated 2020 £m
Derivative financial assets	166.6	124.1	290.7
Trade and other receivables	-	138.5	138.5
Non-current assets	9,573.6	262.6	9,836.2
Trade and other receivables	410.4	(138.5)	271.9
Current assets	739.5	(138.5)	601.0
Derivative financial liabilities	(2,134.1)	(124.1)	(2,258.2)
Total liabilities	(11,024.8)	(124.1)	(11,148.9)
Net liabilities	(711.7)	-	(711.7)

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.

2. Accounting policies *(continued)*

Going concern *(continued)*

The directors have considered the business plan and the cash position of the group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the group for the 12 months from the date of signing the Financial Statements, and the headroom against applicable covenants. In addition, Yorkshire Water, the largest subsidiary of the group, has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. In assessing the group's ability to continue as a going concern, the directors have considered:

- The group's business activities, including the group's financial and operational performance and strength of the year end net asset position;
- The group's available combination of cash and committed undrawn bank facilities totalling £726.8m at 31 March 2021 (2020: £853.4m), comprising £490.8m (2020: £530.2m) undrawn committed bank facilities and £236.0m (2020: £323.2m) of cash and cash equivalents;
- The group's securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually. The forecast cash flow model, established from the group's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds;
- Yorkshire Water's forecast cash flows. Following Ofwat's FD for AMP7, the Board took a unanimous decision to challenge this with the Competition and Markets Authority (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. The redetermination of the Ofwat FD settlement by the CMA concluded in March, therefore there is increased certainty around the forecast cash flows; and
- The impact of Covid-19 including the potential impacts on the wider economy.

The forecast cash flow model, combined with the above considerations, allowed the directors to conclude that from a liquidity perspective the group would have significant liquidity and covenant headroom on facilities available to manage its business risks over a period of at least 12 months from the date of approval of the Financial Statements. For this reason, despite the net liability position, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Basis of consolidation

The group Financial Statements consolidate the Financial Statements of Kelda Eurobond Co Limited and its subsidiaries (note 24). 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.

2. Accounting policies *(continued)*

Revenue

Water charges

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

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

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

Connection and Infrastructure charges

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

Diversions

This revenue stream comprises income for structural alternations to the network. Revenue from diversions 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.

Finance income

Interest receivable is recognised as the interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to its net carrying amount.

Dividends payable

Interim and final dividends payable are recognised once declared.

2. Accounting policies *(continued)*

Research and development expenditure

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

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.

Taxation *(continued)*

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.

2. Accounting policies *(continued)*

Goodwill and intangible assets

Goodwill

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.

In reviewing goodwill for impairment, the group applied a discount rate of 5.26% (2020: 5.02%) and a long-term inflation rate of 2.9% (2020: 3%) to the expected future cash flows of the group. The discounted cash flow includes a terminal value representing the sale of infrastructure assets and amounts to an RCV multiple of 1.18x (2020: 1.15x). On this basis, there is sufficient headroom, and no impairment is required.

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.

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 (note 11). Other property, plant and equipment (PPE) 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
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Water mains and sewers	40 - 125 years
Earth banked dams and reservoirs	200 years

2. Accounting policies _(continued)_

Property, plant and equipment _(continued)_

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 less depreciation. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the profit and loss account. Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in the profit and loss account.

The latest infrastructure valuation was performed at 31 March 2021. An interim valuation for property valuations is recorded in the intervening years on a periodic basis. 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.

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.

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.

2. Accounting policies *(continued)*

Investments in joint ventures and associates *(continued)*

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.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments.

Trade and other receivables

Trade receivables are initially recognised at transaction price, 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.

Bad debt provisions are calculated on trade receivables based on judgement of collection rates and an expected credit loss model.

Trade and other payables

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

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 finance 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.

Any gain or loss on a non-substantial modification of debt is recognised through the profit and loss account, amortised over the life of the financial liability through the effective interest rate.

Leases

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Group for a period of time. If the Group is deemed to have control of an identified asset, then a lease is recognised on the balance sheet. A right of use asset and a corresponding lease liability are recognised.

The right of use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. The borrowing rate is derived from a series of inputs including benchmark government bond rates and adjustments for credit risk based on publicly traded bonds.

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.

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 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.

2. Accounting policies *(continued)*

Derivative financial instruments *(continued)*

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.

Employee benefits

Pension plans

(i) Defined contribution scheme

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

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

(ii) Defined benefit scheme

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

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

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

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

Share capital

Ordinary shares are classified as equity.

2. Accounting policies *(continued)*

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.

Segmental reporting

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

The group has identified three business segments:

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

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

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

Fair value estimation

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

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of derivatives is calculated as the present value of the estimated future cash flows. 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 September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in relation to Interest Rate Benchmark Reform. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments are relevant to the company given that it applies hedge accounting to certain benchmark interest rate exposures.

2. Accounting policies *(continued)*

New standards and interpretations *(continued)*

The GBP London Inter-bank Offered Rate (LIBOR) is the interest rate benchmark to which the company's hedging relationships are significantly exposed. All the fair value hedging relationships are directly affected by the reform. At 31 March 2021, the amounts of debt held as hedged items in these relationships are £430.0m of sterling denominated fixed rate debt, $410.0m of US dollar (USD) denominated fixed rate debt and AU$50.0m of Australian dollar (AUD) denominated fixed rate debt. In total, at 31 March 2021, the notional amount of interest rate and cross-currency swaps that are included in fair value hedge relationships and exposed to GBP LIBOR is £721.5m.

The company will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the company is exposed ends. The company expects this uncertainty will continue until the company's contracts that reference an Inter-bank Offered Rate (IBOR) are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread. Phase 2 amendments relate to issues that could affect financial reporting when an IBOR is replaced with an alternative benchmark interest rate. The Phase 2 amendments apply to annual reporting periods beginning on or after 1 January 2021, therefore full disclosures will be applied in the Financial Statements for the year ended 31 March 2022, once the transition has completed.

The company has set up a LIBOR transition programme comprised of various departments across the business, including treasury, legal and finance. The programme is under the governance of the Chief Financial Officer who reports to the Board. The aim of the programme is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. For the company's derivatives, the company has started discussions with its banks with the aim of addressing its LIBOR exposures in these instruments over the course of 2021. The company has also started discussions with relevant counterparties to amend existing borrowing agreements so that referenced benchmark interest rates will change to Sterling Overnight Index Average Rate (SONIA). The company will have finalised these amendments by the end 2021.

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 3 (amended)	*Reference to the Conceptual Framework*
IAS 16 (amended)	*Property, Plant and Equipment – Proceeds before Intended Use*
IAS 37 (amended)	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018–2020 Cycle	*Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*
IAS 1 (amended)	*Classification of Liabilities as Current and Non-current*
Amendments to IAS 19 Employee Benefits	*Plan Amendment, Curtailment or Settlement*
IFRS 10 Consolidated Financial Statements and IAS 28 (amended)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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.

2. Accounting policies *(continued)*

Critical accounting judgements and key sources of estimation uncertainty

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

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

The directors consider the principal accounting estimates made in the Financial Statements to be:

Assumptions relating to the defined benefit pension scheme

The present value of the pension obligation depends on a number of factors, determined on an actuarial basis, using a number of assumptions (see note 18). The assumptions used in determining the valuation of the pension obligation include the discount rate of 2.15% (2020: 2.35%), the RPI rate of 3.30% (2020: 2.60%) and the mortality rates. The discount rate is determined by considering the market yields on high quality corporate bonds, at the reporting date. Other assumptions are based on current market conditions. The sensitivity of key assumptions has been detailed in note 19.

Infrastructure assets valuation

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

The key assumptions requiring estimation in the model are the discount rate (based on the cost of equity), RPI and the underlying cash flows. The discount rate applied is 7.63% (2020: 8.19%). A long-term RPI rate has been adopted of 2.9% (2020: 3.0%). A movement in the discount rate of 0.04% would cause a material movement in the valuation. A movement of in RPI and CPIH of 0.02% per annum would cause a material movement in the valuation. Similarly, a movement in the underlying cash flows of £1.71m per annum would cause a material movement in the valuation.

Goodwill impairment testing

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

In reviewing goodwill for impairment, the group applied a discount rate of 5.26% (2020: 5.02%) and a long-term inflation rate of 2.9% (2020: 3.0%) to the expected future cash flows of the group. The discounted cash flow includes a terminal value representing the sale of infrastructure assets and amounts to an RCV multiple of 1.18x (2020: 1.15x). On this basis, there is sufficient headroom, and no impairment is required.

2. Accounting policies _(continued)_

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 20. 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 £2,111.9m would be £45.1m (2020: £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 £2,111.9m would be £31.2m (2020: £31.6m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,111.9m would be £87.4m (2020: £89.8m) 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.

Revenue recognition from household customers where payment is not considered probable and Covid-19 bad debt provision

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. If the period used went from two to three years it would reduce the provision by £3.0m (2020: £2.4m).

Management also make an estimate regarding future cash collection to form the basis of the bad debt provision. Due to the Covid-19 pandemic there is increased uncertainty around future levels of recovery, therefore management have made an assessment based on available economic and customer payment and debt information which has been reflected in the bad debt provision.

The directors consider the critical accounting judgements made in the Financial Statements to be:

Capitalisation of labour costs

Additions made to property, plant and equipment include £58.4m (2020: £52.0m) 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.

2. Accounting policies *(continued)*

Depreciation

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

Recognition of a defined benefit surplus

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

3. Revenue

Year ended 31 March 2021

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total operations after reallocations £m
Total revenue	1,109.3	39.6	3.1	(32.4)	1,119.6	(2.8)	1,116.8
Inter-company revenue	(3.0)	(29.4)	-	32.4	-	-	-
External revenue	**1,106.3**	**10.2**	**3.1**	**-**	**1,119.6**	**(2.8)**	**1,116.8**

Year ended 31 March 2020

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total operations after reallocations £m
Total revenue	1,062.5	41.8	6.2	(37.8)	1,072.7	(6.2)	1,066.5
Inter-company revenue	(3.2)	(34.6)	-	37.8	-	-	-
External revenue	1,059.3	7.2	6.2	-	1,072.7	(6.2)	1,066.5

3. Revenue _(continued)_

Timing of revenue recognition

	2021	2020
	£m	£m
At a point in time	**1,094.7**	1,050.9
Over time	**22.1**	15.6
Total revenue from continuing operations	**1,116.8**	1,066.5

Kelda Eurobond Co Limited

Notes to the consolidated Financial Statements (continued)

for the year ended 31 March 2021

4. Segmental information

Year ended 31 March 2021

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue (note 3)	1,106.3	10.2	3.1	-	1,119.6	(2.8)	1,116.8
Depreciation and amortisation	(323.1)	(1.6)	-	(3.9)	(328.6)	-	(328.6)
Release of deferred income	11.6	-	-	-	11.6	-	11.6
Other operating costs	(517.6)	(9.6)	(6.6)	12.8	(521.1)	2.8	(518.2)
Operating costs - exceptional items (note 6)	(28.4)	0.5	-	-	(27.9)	-	(27.9)
Group operating profit	**248.7**	**(0.5)**	**(3.5)**	**8.9**	**253.6**	**-**	**253.7**
Finance income (note 8)							9.8
Finance costs (note 8)							(318.6)
Fair value movements (note 8)							(101.6)
Loss before taxation							**(156.7)**
Tax charge (note 9)							7.5
Loss for the year attributable to owners of the parent							**(149.2)**

4. Segmental information *(continued)*

Year ended 31 March 2021

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	8,864.1	3.1	12.1	1,387.6	10,266.9
Liabilities	(3,662.4)	(4.6)	(13.2)	(175.9)	(3,856.1)
Net debt	(5,295.0)	0.6	0.2	(1,931.0)	(7,225.2)
Net liabilities	**(93.3)**	**(0.9)**	**(0.9)**	**(719.3)**	**(814.4)**
Other information					
Tangible asset capital additions	448.3	-	-	-	448.3

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with IFRS and £1,668.5m of loan notes issued by Kelda Eurobond Co Limited.

There are no material assets of the group located outside the United Kingdom in the year ended 31 March 2021, this being the case the group has one single geographical segment, being the United Kingdom.

4. Segmental information *(continued)*

Year ended 31 March 2020

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue (note 3)	1,059.3	7.2	6.2	-	1,072.7	(6.2)	1,066.5
Depreciation and amortisation	(311.2)	(0.3)	-	(4.8)	(316.3)	-	(316.3)
Release of deferred income	10.9	-	-	-	10.9	-	10.9
Other operating costs	(499.2)	(39.0)	(5.0)	(2.8)	(546.0)	6.2	(539.8)
Operating costs - exceptional items (note 6)	(8.1)	-	-	-	(8.1)	-	(8.1)
Group operating profit	**251.7**	**(32.1)**	**1.2**	**(7.6)**	**213.2**	**-**	**213.2**
Finance income (note 8)							3.1
Finance costs (note 8)							(340.3)
Fair value movements (note 8)							(40.2)
Loss before taxation							**(164.2)**
Tax charge (note 9)							(28.0)
Loss for the year attributable to owners of the parent							**(192.2)**

4. Segmental information *(continued)*

Year ended 31 March 2020

	Restated[1] UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	9,352.4	2.9	11.8	746.9	10,114.0
Liabilities	(3,578.2)	(3.9)	(1.3)	(153.3)	(3,736.7)
Net debt	(5,312.2)	0.8	0.4	(1,778.0)	(7,089.0)
Net assets/(liabilities)	**462.0**	**(0.2)**	**10.9**	**(1,184.4)**	**(711.7)**
Other information					
Capital additions	484.0	0.3	-	-	484.3

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with IFRS and £1,550.1m of loan notes issued by Kelda Eurobond Co Limited.

There are no material assets of the group located outside the United Kingdom in the year ended 31 March 2020, this being the case the group has one single geographical segment, being the United Kingdom.

[1] Restated see note 2

5. Operating costs before exceptional items

Operating costs before exceptional items includes the following:

	2021	2020
	£m	£m
Own work capitalised	**(58.4)**	(52.0)
Raw materials and consumables	**37.2**	51.1
Staff costs (note 7)	**199.1**	183.1
Depreciation (note 11)	**302.6**	316.2
Amortisation of intangible assets (note 10)	**26.0**	17.0
Net impairment of trade receivables	**0.2**	10.9
Profit on disposal of property, plant and equipment	**(2.4)**	(0.6)

Auditor's remuneration

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

	2021	2020
	£m	£m
Fees payable to the group's auditors for:		
- The audit of the company's subsidiaries pursuant to legislation	**0.5**	0.4
- Other assurance services	**0.1**	0.1
	0.6	0.5

Other assurance services predominantly relate to regulator reporting obligations.

6. Exceptional items

	2021	2020
	£m	£m
Exceptional operating costs	**7.9**	-
Exceptional payments to delivery partners	**3.8**	-
CMA referral costs	**10.5**	1.1
Strategic business process review	**8.7**	2.4
Extreme weather events	**(2.5)**	8.0
Profit on business disposal	**(0.5)**	(3.4)
Total exceptional items included in operating profit	**27.9**	8.1

6. Exceptional items *(continued)*

Exceptional costs of £27.9m (2020: £8.1m) include £7.9m in relation to discretely identifiable increases in operational costs as a result of factors such as enhanced cleaning regimes, social distancing requiring additional vehicles, and protective equipment to keep our colleagues safe and allow essential working in accordance with government guidance; and £3.8m in relation to payments made to key delivery partners to enable them to continue to employ personnel who were considered critical responders in the event of operational emergencies in the business such as leakage incidents, and to cover their discretely identifiable additional costs of operation in the covid-19 environment.

Subsequent to our decision to ask Ofwat to refer the AMP7 Final Determination to the CMA, we have incurred £10.5m (2020: £1.1m) of legal and advisory related costs. Our response to the Final Determination was a one-off strategic review of our business processes to identify efficiencies and provide a step change in operational performance, incurring specific costs of £8.7m including severance (2020: £2.4m).

Insurance income, net of residual mitigation costs, relating to extreme weather events in previous years results in a credit of £2.5m (2020: £8.0m cost) and is treated as exceptional. This treatment is consistent with previous years.

The 2021 income on profit on business disposal of £0.5m relates to deferred consideration received from the sale of a non-regulated entity in 2018. The 2020 profit relates to profit on sale of our non-household retail business.

7. Directors and employees

	2021	2020
Average monthly number of people employed by the group		
UK regulated water services	**3,707**	3,312
Other activities	**798**	875
	4,505	4,187

	2021	2020
	£m	£m
Total employment costs:		
Wages and salaries	**167.0**	154.8
Social security costs	**18.1**	14.9
Other pension costs	**14.0**	13.4
	199.1	183.1

7. Directors and employees *(continued)*

Directors' emoluments

	2021	2020
	£m	£m
Aggregate emoluments	**2.2**	2.4

The amounts in respect of the highest paid director are as follows:

	2021	2020
	£m	£m
Aggregate emoluments	**1.3**	1.2

During 2021, none (2020: one) executive 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 2021 was £nil (2020: £nil).

During the year ended 31 March 2021, two (2020: two) directors were incentivised through a long-term incentive plan which allows them to receive, at the discretion of the Remuneration Committee, a conditional monetary award.

8. Finance income and finance costs

	2021	2020
	£m	£m
Finance income		
Interest on bank deposits	**0.6**	1.1
Net interest gain on pension scheme liabilities (note 18)	**6.0**	2.0
Interest receivable from parent company	**3.2**	3.9
Total finance income	**9.8**	7.0
Finance costs		
Interest payable on fixed rate and inflation guaranteed bonds and notes	**(161.3)**	(161.8)
Interest payable on fixed rate USD notes	**(10.4)**	(10.4)
Interest payable on fixed rate AUD bonds	**(2.0)**	(2.0)
Interest receivable from swaps in hedge relationships	**15.3**	11.6
Amortisation of issue costs in respect of bonds and private notes	**(5.0)**	(3.9)
Total finance costs for bonds and private notes	**(163.4)**	(166.5)
Interest payable on bank borrowings	**(24.5)**	(28.3)
Index accretion on inflation linked borrowings	**(21.6)**	(40.2)
Interest payable on bonds issued by Kelda Eurobond Co Limited	**(117.4)**	(116.5)
Interest payable on leases	**(0.6)**	(1.3)
Commitment fees and miscellaneous interest	**(5.3)**	(8.3)
Finance costs before interest capitalisation and fair value movements	**(332.8)**	(361.1)
Interest capitalised (note 11)	**14.2**	16.9
Finance costs before fair value movements	**(318.6)**	(344.2)
Fair value movements (note 20)	**(101.6)**	(40.2)
Total finance cost	**(420.2)**	(384.4)

For more information on guaranteed, USD and AUD bonds refer to note 13.

Fair value movements are explained below.

8. Finance income and finance costs

The following table summarises the fair value movements through profit and loss:

	2021	2020
	£m	£m
Total fair value movements		
Movement in fair value of inflation linked swaps (see below)	**98.9**	31.5
Movement in fair value of lease interest rate swaps	**(1.2)**	4.7
Movement in fair value of cross-currency interest rate swaps	**37.4**	(27.5)
Movement in fair value of foreign currency debt	**(35.6)**	26.8
Movement in fair value of fixed to floating interest rate swaps	**23.3**	(22.4)
Movement in the fair value of debt associated with fixed to floating interest rate swaps	**(20.8)**	22.8
Movement in fair value of energy derivatives	**(0.4)**	4.3
Total fair value movements	**101.6**	40.2

Movement in fair value of inflation linked swaps of £98.9m (2020: £31.5m) includes a charge of £48.3m (2020: £26.7m) in relation to the RPI bullet accumulated as at 31 March 2021, interest receivable of £69.0m (2020: £52.4m), interest payable of £52.3m (2020: £51.9m) and other fair value movements of £67.3m (2020: £5.3m).

	2021	2020
	£m	£m
Finance income		
Interest on bank deposits and loans	**0.6**	1.1
Net interest gain on pension scheme liabilities	**6.0**	2.0
Interest receivable from parent company	**3.2**	3.9
Total finance income	**9.8**	7.0
Finance costs		
Financial liabilities held at fair value through profit and loss	**(115.4)**	(57.5)
Financial liabilities held at amortised cost	**(304.8)**	(298.6)
Total finance costs	**(420.2)**	(384.4)

9. Tax (credit)/charge on continuing operations

	2021 £m	2020 £m
Current tax		
UK Corporation Tax at 19% (2020: 19%)	**0.1**	0.1
Adjustments in respect of prior years	**-**	0.3
Total current tax charge to the income statement	**0.1**	0.4
Deferred tax		
UK credit for origination and reversal of temporary differences	**(6.3)**	(9.0)
(Over)/under provision of tax in respect of previous periods	**(1.3)**	1.4
Effect of tax rate changes	**-**	35.2
Total deferred (credit)/charge to the income statement	**(7.6)**	27.6
Total tax (credit)/charge to the income statement	**(7.5)**	28.0
Tax relating to items charged to other comprehensive income		
Deferred tax:		
Actuarial (gains)/losses in respect of defined benefit pension schemes	**(31.9)**	31.0
Movement in fair value hedges	**1.8**	(0.5)
Revaluation of infrastructure assets	**41.2**	(18.5)
Tax charge in the group statement of comprehensive income	**11.1**	12.0

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2020: 19%) to the loss before tax is as follows:

	2021 £m	2020 £m
Loss from continuing operations before taxation	**(156.7)**	(164.2)
Current and deferred tax on Group loss at the standard UK tax rate	**(29.8)**	(31.2)
Effects of:		
Expenses not deductible for tax purposes	**8.7**	6.2
Income not taxable	**(2.4)**	(1.6)
Difference on taxable and accounting profit on sale of NHHR	**-**	(0.5)
Difference in tax rates	**-**	35.2
Adjustments in relation to prior periods	**(1.3)**	1.7
Movement in deferred tax not recognised	**17.3**	18.2
Group current and deferred tax (credited)/charged to the income statement	**(7.5)**	28.0

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

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, following the announcement in the March 2020 Budget that the reduction will not occur, the rate of 19% has been held in preparing these Financial Statements.

The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances were recalculated to 19% for the 31 March 2020 year end. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date. As a result, deferred tax balances as at 31 March 2021 continue to be measured at 19%. For balances expected to reverse at the amended 25% rate, the impact on the closing deferred tax position would be to increase the deferred tax liability by £147.8m.

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:

	2021	2020
	£m	£m
Property, plant and equipment	**(1.0)**	68.8
Financial instruments	**(10.1)**	(42.9)
Retirement benefit obligations	**3.1**	2.1
R&D expenditure credit	**0.4**	(0.4)
Deferred tax (credit)/charge	**(7.6)**	27.6

10. Intangible assets

	Software £m	Goodwill £m	Total £m
Cost			
At 1 April 2020	206.2	1,800.3	2,006.5
Additions	22.7	-	22.7
Disposals	(1.1)	-	(1.1)
At 31 March 2021	**227.8**	**1,800.3**	**2,028.1**
Accumulated amortisation			
At 1 April 2020	47.2	750.0	797.2
Amortisation	26.0	-	26.0
Disposals	(1.1)	-	(1.1)
At 31 March 2021	**72.1**	**750.0**	**822.1**
Net book value at 31 March 2021	**155.7**	**1,050.3**	**1,206.0**

	Software £m	Goodwill £m	Total £m
Cost			
At 1 April 2019	145.3	1,800.3	1,945.6
Additions	62.7	-	62.7
Disposals	(1.8)	-	(1.8)
At 31 March 2020	**206.2**	**1,800.3**	**2,006.5**
Accumulated amortisation			
At 1 April 2019	32.0	750.0	782.0
Amortisation	17.0	-	17.0
Disposals	(1.8)	-	(1.8)
At 31 March 2020	**47.2**	**750.0**	**797.2**
Net book value at 31 March 2020	**159.0**	**1,050.3**	**1,209.3**

10. Intangible assets *(continued)*

Impairment tests for goodwill

Existing goodwill of £1,050.3m (2020: £1,050.3m) is all allocated to the UK regulated water services business segment. The recoverable amount of the UK regulated water services segment is determined based on a value in use calculation, using post tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long-term business modelling covering a 25 year period. The period of cash flows of 25 years is deemed appropriate as it aligns with the long-term planning of the regulated business as determined by Ofwat. The discounted cash flows include a terminal value representing the sale of infrastructure assets, which amounts to an RCV multiple of 1.18x (2020: 1.15x). The underlying cash flows in the model are also a key assumption. The discount and inflation rates applied, and terminal value have been determined based on risk factors specific to the industry and circumstances of the group. See note 2 for further detail.

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

	2021	2020
Long-term inflation	**2.90%**	3.00%
Discount rate	**5.26%**	5.02%
Terminal value (multiple of RCV)	**1.18x**	1.15x

A further key assumption is the cash flow projections included in the value in use calculation, which include planned efficiency targets. The long-term inflation rate used is based on the CMA redetermination finalised in March 2021. The cash flows have been inflated by RPI and discounted back using the nominal WACC per the FD, as permitted under IAS 36. Management have considered the sensitivity of the key assumptions; it is believed that no reasonably possible change would erode the headroom to the stage of needing to impair the balance, therefore no sensitivity analysis has been disclosed.

11. Property, plant and equipment

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2020	1,996.5	4,722.1	2,819.8	499.5	10,037.9
Additions at cost	22.5	47.0	33.3	345.5	448.3
Transfers on commissioning	24.5	152.7	89.7	(266.9)	-
Disposals	(36.5)	(6.1)	(163.5)	-	(206.1)
Revaluation	-	217.0	-	-	217.0
At 31 March 2021	**2,007.0**	**5,132.7**	**2,779.3**	**578.1**	**10,497.1**
Accumulated depreciation					
At 1 April 2020	420.6	381.6	1,351.0	-	2,153.2
Charge for the year	44.7	90.0	163.7	-	298.4
Disposals	(36.5)	(6.1)	(162.6)	-	(205.2)
At 31 March 2021	**428.8**	**465.5**	**1,352.1**	**-**	**2,246.4**
Net book value at 31 March 2021	**1,578.2**	**4,667.2**	**1,427.2**	**578.1**	**8,250.7**

During the year the group capitalised borrowing costs amounting to £14.2m (2020: £16.9m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate on the company's borrowings of 3.14% (2020: 3.17%).

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

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2019	1,889.2	4,882.1	2,712.6	722.3	10,206.2
Additions at cost	30.9	101.8	237.7	113.9	484.3
Transfers on commissioning	108.9	17.8	210.0	(336.7)	-
Disposals	(17.3)	(32.0)	(311.5)	-	(360.8)
Revaluation	-	(178.5)	-	-	(178.5)
Reclassified as right of use assets	(15.2)	(69.1)	(29.0)	-	(113.3)
At 31 March 2020	**1,996.5**	**4,722.1**	**2,819.8**	**499.5**	**10,037.9**
Accumulated depreciation					
At 1 April 2019	397.7	351.8	1,512.9	-	2,262.4
Charge for the year	45.8	93.6	171.0	-	310.4
Disposals	(17.3)	(32.0)	(311.4)	-	(360.7)
Reclassified as right of use assets	(5.6)	(31.8)	(21.5)	-	(58.9)
At 31 March 2020	**420.6**	**381.6**	**1,351.0**	**-**	**2,153.2**
Net book value at 31 March 2020	**1,575.9**	**4,340.5**	**1,468.8**	**499.5**	**7,884.7**

Right of use assets

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost				
At 1 April 2020	23.6	37.3	9.5	70.4
Additions	3.2	-	2.1	5.3
Disposals	(8.5)	-	-	(8.5)
At 31 March 2021	**18.3**	**37.3**	**11.6**	**67.2**
Depreciation and impairment				
At 1 April 2020	2.5	1.1	2.2	5.8
Charge for the year	1.2	1.0	2.0	4.2
Disposals	(1.3)	-	-	(1.3)
At 31 March 2021	**2.4**	**2.1**	**4.2**	**8.7**
Net book value at 31 March 2021	**15.9**	**35.2**	**7.4**	**58.5**
Net book value at 31 March 2020	21.1	36.2	7.3	64.6

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

Revaluation - Infrastructure assets

The group's infrastructure assets were valued by KPMG at 31 March 2021. This valuation was performed in accordance with IAS 16 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

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

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

The increase in infrastructure assets valuation has been incorporated into the Financial Statements and the resulting revaluation adjustments taken to the revaluation reserve. An uplift of £217.0m, before deferred tax, was recognised in the year ended 31 March 2021 (2020: £178.5m impairment).

Revaluation - Land and buildings

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

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

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

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. The valuations carried out at 31 March 2019 have been considered at 31 March 2021 by the directors, who concluded that the current book values are not materially different to current market values.

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

Categories of assets revalued as at 31 March 2021 are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	4,702.4	4,290.8
Non-specialist properties	37.4	35.8
Rural estates	51.8	0.5
Residential properties	2.3	-
Net book value of assets revalued	**4,793.9**	**4,327.1**

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

	Revalued amount £m	Historical cost basis £m
1 April 2019	**69.8**	**13.9**
Depreciation and impairment	**(0.6)**	**(0.2)**
1 April 2020	**69.2**	**13.7**
Additions	**23.3**	**23.3**
Depreciation and impairment	**(0.9)**	**(0.7)**
31 March 2021	**91.6**	**36.3**

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

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

	Revalued amount £m	Historical cost basis £m
At valuation/cost	6,256.1	5,676.4
Aggregate depreciation	(1,553.8)	(1,385.6)
Net book value of assets revalued	**4,702.3**	**4,290.8**

12. Trade and other receivables

	2021 **£m**	[1] Restated 2020 £m
Amounts falling due within one year:		
Trade receivables	**182.7**	170.8
Provision for impairment of trade receivables	**(27.5)**	(30.6)
	155.2	140.2
Prepayments	**11.2**	8.4
Accrued income	**79.2**	82.9
Other tax and social security	**16.4**	28.5
Other receivables	**10.4**	11.9
	272.4	271.9
Amounts falling due in more than one year:		
Amounts owed by parent company	**141.9**	138.5

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 20 for further details of credit risks associated with financial instruments.

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, which represents 99.1% of group turnover and 98.9% 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 2.5% (2020: 2.9%), calculated as the impairment write off as a percentage of revenue.

12. Trade and other receivables *(continued)*

As at 31 March 2021

	Not due	Past due: Less than 1 year overdue	Between 1 and 2 years overdue	Between 2 and 3 years overdue	Between 3 and 4 years overdue	More than 4 years overdue	Total
Trade receivables	0.3	89.6	23.8	18.2	15.3	35.5	182.7
Expected credit loss (£m)	-	(1.1)	(1.8)	(3.7)	(5.4)	(15.5)	(27.5)
Expected credit loss (%)	-	1.2	7.6	20.3	35.3	43.7	15.1

As at 31 March 2020

	Not due	Past due: Less than 1 year overdue	Between 1 and 2 years overdue	Between 2 and 3 years overdue	Between 3 and 4 years overdue	More than 4 years overdue	Total
Trade receivables	0.2	89.0	22.3	17.9	12.6	28.8	170.8
Expected credit loss (£m)	-	(3.1)	(3.3)	(5.0)	(5.0)	(14.2)	(30.6)
Expected credit loss (%)	-	3.5	14.7	28.0	39.5	49.3	17.9

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

	2021 £m	2020 £m
Provision at 31 March 2020	**30.6**	23.6
Charge in the year	**19.6**	27.7
Amounts written off	**(22.7)**	(20.7)
Provision at 31 March 2021	**27.5**	30.6

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

13. Financing

(i) Cash and cash equivalents

	2021 £m	2020 £m
Cash and cash equivalents	**120.9**	105.4
Short-term deposits	**115.1**	217.8
	236.0	323.2

At 31 March 2021, the group had available £490.8m (2020: £530.2m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2021 £m	2020 £m
Current borrowings:		
Bank borrowings	**110.3**	50.8
Other borrowings	**320.0**	320.0
Fixed rate USD notes	**168.7**	-
	599.0	370.8

	2021 £m	2020 £m
Non-current borrowings:		
Bank borrowings	**768.8**	864.8
Fixed rate guaranteed sterling bonds and notes due in less than 5 years	**217.0**	215.4
Fixed rate guaranteed sterling bonds and notes due in more than 5 years	**2,658.6**	2,678.4
Inflation linked guaranteed sterling bonds and notes due in more than 5 years	**1,308.5**	1,287.6
Floating rate notes due in more than 5 years	**74.4**	74.4
Fixed rate USD notes due in less than 5 years	**136.6**	343.2
Fixed rate AUD bonds due in less than 5 years	**29.7**	27.5
Notes issued by Kelda Eurobond Co Limited	**1,668.6**	1,550.1
	6,862.2	7,041.4

Bank 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' includes the drawn portion of Yorkshire Water's Revolving Credit Facility.

13. Financing *(continued)*

(ii) Borrowings *(continued)*

Included within borrowings are:

	2021 £m	2020 £m
Fixed rate guaranteed sterling bonds and notes due in less than 5 years are made up of:		
Bonds repayable on 21 February 2023. Interest is charged at 6.5876%[1]	**210.9**	209.7
Bonds repayable on 21 February 2023. Interest is charged at 5.375%[1]	**6.1**	5.7
Total fixed rate guaranteed sterling bonds and notes due in less than 5 years	**217.0**	215.4
Fixed rate guaranteed sterling bonds and notes due in more than 5 years are made up of:		
Bonds repayable on 26 November 2026. Interest is charged at 1.75%	**298.6**	298.6
Bonds repayable on 28 May 2027. Interest is charged at 5.5%	**6.8**	6.7
Bonds repayable on 28 May 2027. Interest is charged at 6.454%	**132.2**	131.6
Private notes repayable on 22 September 2028. Interest is charged at 2.03%	**59.8**	59.8
Bonds repayable on 1 August 2029. Interest is charged at 3.625%	**264.9**	274.4
Private notes repayable on 30 October 2029. Interest is charged at 3.54%	**102.4**	107.0
Bonds repayable on 17 April 2031. Interest is charged at 6.6011%	**268.0**	267.7
Bonds repayable on 17 April 2031. Interest is charged at 6.625%	**0.8**	0.8
Private notes repayable on 22 September 2031. Interest is charged at 2.14%	**49.8**	49.8
Private notes repayable on 22 September 2033. Interest is charged at 2.21%	**49.8**	49.8
Bonds repayable on 13 June 2033. Interest is charged at 4.965%	**105.3**	111.8
Private notes repayable on 28 September 2034. Interest is charged at 3.08%	**49.7**	49.8
Private notes repayable on 22 September 2036. Interest is charged at 2.30%	**39.8**	39.9
Private notes repayable on 22 September 2036. Interest is charged at 2.30%	**49.8**	49.8
Bonds repayable on 28 May 2037. Interest is charged at 5.5%	**187.3**	186.8
Private notes repayable on 28 September 2038. Interest is charged at 3.17%	**49.7**	49.8
Bonds repayable on 19 August 2039. Interest is charged at 6.375%	**302.6**	303.2
Bonds repayable on 18 April 2041. Interest is charged at 2.75%	**444.9**	445.8
Bonds repayable on 22 March 2046. Interest is charged at 3.75%[1]	**196.4**	195.0
Total fixed rate guaranteed sterling bonds and notes due in more than 5 years	**2,658.6**	2,678.1
Inflation linked guaranteed sterling bonds and notes due in more than 5 years are made up of:		
Bonds repayable on 29 July 2033. Interest is charged at 3.3066%[2]	**199.4**	197.1
Bonds repayable on 29 July 2033. Interest is charged at 3.048%[2]	**(0.8)**	(0.8)
Bonds repayable on 30 December 2039. Interest is charged at 2.718%[2]	**369.3**	365.2
Private notes repayable on 13 December 2041. Interest is charged at 2.16%[2]	**61.7**	60.9

13. Financing *(continued)*

(ii) Borrowings *(continued)*

	2021	2020
	£m	£m
Inflation linked guaranteed sterling bonds due in more than 5 years are made up of:		
Bonds repayable on 22 May 2042. Interest is charged at 1.803%[2]	**61.1**	60.5
Bonds repayable on 1 February 2050. Interest is charged at 1.8225%[2]	**83.7**	82.1
Bonds repayable on 1 August 2051. Interest is charged at 1.462%[2]	**150.9**	147.3
Bonds repayable on 1 February 2054. Interest is charged at 1.75756%[2]	**107.4**	105.3
Bonds repayable on 1 August 2056. Interest is charged at 1.46%[2]	**152.0**	148.6
Bonds repayable on 1 February 2058. Interest is charged at 1.7085%[2]	**123.8**	121.4
Total inflation linked guaranteed sterling bonds due in more than 5 years	**1,308.5**	1,287.6
Fixed rate USD notes are made up of:		
$115.0m USD fixed rate private notes repayable 13 December 2021. Interest is charged at 3.77%	**84.3**	94.7
$40.0m USD fixed rate private notes repayable 5 January 2022. Interest is charged at 3.77%	**29.4**	33.0
$75.0m USD fixed rate private notes repayable 5 January 2022. Interest is charged at 5.07%	**55.0**	61.8
$150.0m USD fixed rate private notes payable on 13 December 2023. Interest is charged at 3.87%	**113.8**	128.1
$30.0m USD fixed rate private notes repayable on 5 January 2024. Interest is charged at 3.87%	**22.8**	25.6
Total fixed rate USD notes	**305.3**	343.2
Fixed rate AUD bonds are made up of:		
$50m AUD bonds repayable on 26 April 2023. Interest is charged at 5.875%.	**29.7**	27.5
Total fixed rate AUD bonds	**29.7**	27.5

All guaranteed borrowings above are repayable in one instalment unless stated otherwise.
[1] This bond also has an associated step-up and call date on 22 March 2023
[2] Interest is charged on these bonds at the above percentages multiplied by an index ratio and the principal amount is increased semi-annually in line with the RPI.

13. Financing *(continued)*

(ii) Borrowings *(continued)*

Non-current bank borrowings

Non-current bank borrowings are made up of:

(i) Bank loans:
- Loan facilities of £15.0m with maturities between 1 and 2 years.
- Loan facilities of £45.0m with maturities between 2 and 5 years.
- Loan facilities of £152.6m with maturities in more than 5 years.

(ii) Term loans facilities:
- An inflation (Consumer Price Index or CPI) linked term facility of £101.8m due March 2029 with interest charged at 0.4745% multiplied by an index ratio and the principal amount is increased semi-annually in line with CPI.
- A fixed rate term facility of £49.9m due July 2031 with interest charged at 2.881%.
- An inflation (CPI) linked term facility of £25.8m 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.

(iii) Bank loans held at Kelda Finance (No.2) Limited of £378.7m (383.2m loan less £4.5m unamortised issue costs).

Notes issued by Kelda Eurobond Co Limited £1,668.5m (2020: £1,550.1m)
These loan notes are issued under a Payment-in-Kind (PIK) facility agreement. The final redemption date under this PIK facility agreement is 8 February 2023. Interest is charged at 6-month LIBOR plus 7.0%. Semi-annual interest payments have been capitalised by adding amounts due to the outstanding notes balance.

14. Lease liabilities

	2021	2020
	£m	£m
Current	**6.0**	4.1
Non-current	**85.0**	95.1
	91.0	99.2

The group does not face a significant liquidity risk with regard to its lease liabilities.

15. Trade and other payables

	2021	2020
	£m	£m
Amounts falling due within one year:		
Trade payables	**149.6**	113.5
Capital payables	**78.8**	109.1
Social security and other taxes	**6.4**	2.8
Receipts in advance	**88.2**	70.0
Interest payable	**82.9**	91.2
Other payables	**9.0**	17.1
	414.9	403.7
Amounts falling due after more than one year:		
Other payables	**11.5**	4.7

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value.

16. Deferred grants and contributions on depreciated assets

	2021	2020
	£m	£m
Amounts falling due within one year:		
Contributions to depreciated assets	**11.8**	10.8
Amounts falling due after more than one year:		
Contributions to depreciated assets	**503.1**	484.1

17. Deferred income tax liabilities

	R&D credit	Property, plant and equipment	Financial instruments	Pension obligations	Total
	£m	£m	£m	£m	£m
At 1 April 2019	-	793.4	(370.6)	10.9	433.7
Transfer	-	0.2	(0.2)		-
(Credit)/charge to income statement	(0.4)	68.8	(42.9)	2.1	27.6
(Credit)/charge to equity	-	(18.5)	(0.5)	31.0	12.0
At 1 April 2020	(0.4)	843.9	(414.2)	44.0	473.3
Charge/(credit) to income statement	**0.4**	**(1.0)**	**(10.1)**	**3.1**	**(7.6)**
Charge/(credit) to equity	**-**	**41.2**	**1.8**	**(31.9)**	**11.1**
At 31 March 2021	**-**	**884.1**	**(422.5)**	**15.2**	**476.8**

18. Pensions

(i) Characteristics of and risks associated with the group's plan

Kelda group Limited sponsors a UK pension plan, called the Kelda Group Pension Plan (KGPP). The KGPP has a number of benefit categories providing benefits on a defined benefit basis and a defined contribution basis.

The responsibility for the governance of the group's defined benefit pension plan lies with the Pension Trustees. The plan is managed by a Trustee board (the Trustee) whose role is to ensure that the plan is administered in accordance with the plan rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee is solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The board of Trustees must be composed of representatives of the company and plan participants in accordance with the plan's regulations.

(i) Characteristics of and risks associated with the group's plan *(continued)*

The majority of members paid contributions over the year ended 31 March 2021 at rates of 5%, 7% or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The group contributed 17.0% of pensionable pay. The group also paid lump sum deficit contributions of £1.2m per month in the year to 31 March 2021.

An accrual for unfunded benefits of £12.6m has been included in the group's Financial Statements at 31 March 2021 (2020: £11.4m).

Risk exposure of the defined benefit plan

Whilst the group is not exposed to any unusual, entity specific or plan specific risks in its defined benefit pension plan, it is exposed to a number of significant risks, detailed below:

18. Pensions *(continued)*

(i) Characteristics of and risks associated with the group's plan *(continued)*

Inflation rate risk: The Trustee of the KGPP has entered into an inflation mechanism with the group. This is part of a de-risking mandate agreed with the Pension Trustee and is aimed at reducing the volatility in future funding and contributions. The swap mechanism is based upon a long-term fixed inflation assumption for the plan valuation of 3.0% per annum. In periods when actual inflation is higher than 3.0%, the group will make additional contributions (smoothed over a five-year period) in respect of the increased unhedged liabilities caused by higher inflation. Given the principal subsidiary of the group, Yorkshire Water, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have put in place. Whilst this reduces the pension plan funding risk and therefore the actuarial valuation of the plan, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on high quality corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the value of bond holdings within the plan.

Longevity risk: The majority of the plan’s obligations are to provide benefits for the life of the members so increases in life expectancy or adverse changes in other demographics may result in an increase in the plan's liabilities.

Investment risk: Plan assets are invested in a diversified portfolio of debt securities, equities, property, and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension liability on the group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the pension expense in the group's income statement.

Several other asset risks are considered by the Pension Trustee when managing the plan’s investments. These include concentration (being too heavily exposed to a specific area of the market), illiquidity (failing to meet intermediate liabilities as assets can’t be sold), currency and investment manager specific risks. The Trustee also considers environmental, social and governance risks, with a particular recent focus on climate risk. Climate change is considered a systemic risk with the potential to have an economic, financial and demographic impact making it a long-term financial risk to the plan’s outcomes.

The ultimate cost of the defined benefit obligations to the group will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the actual cost may be higher or lower than expected.

18. Pensions *(continued)*

(ii) Major assumptions

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Limited, on the basis of annual valuations using the projected unit credit method.

	2021	2020
	%	%
Inflation (RPI)	**3.30**	2.60
Inflation (CPI)	**2.70**	1.80
Rate of increase in salaries	**2.00**	2.00
Discount rate for plan liabilities	**2.15**	2.35
Life expectancy for a male pensioner aged 60 (in years)	**26.30**	26.30
Projected life expectancy at age 60 for male aged 40 (in years)	**27.80**	27.80
Life expectancy for a female pensioner aged 60 (in years)	**28.90**	28.80
Projected life expectancy at age 60 for female aged 40 (in years)	**30.50**	30.40

(iii) plan assets and liabilities

Plan assets are stated at their mid or net asset value (NAV) values at the respective balance sheet dates.

To develop the expected long-term rate of return on assets assumption, the group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The post-employment benefit net surplus of £95.3m (2020: £245.7m) is presented in the balance sheet under non-current assets.

	2021	2020
	£m	£m
Fair value of plan assets		
Equities	**151.3**	135.4
Bonds	**256.4**	224.3
Property	**13.6**	35.3
Other	**1,142.1**	1,141.3
Total value of plan assets	**1,563.4**	1,536.3
Present value of plan liabilities	**(1,468.1)**	(1,290.6)
Post-employment benefit surplus	**95.3**	245.7

The pension plan has not invested in any of the group's own financial instruments nor in properties or other assets used by the group.

18. Pensions *(continued)*

(iv) Analysis of the amounts included within the Financial Statements

	2021	2020
	£m	£m
Analysis of amount charged to operating costs:		
Current service cost	**10.6**	12.9
Past service cost	**0.2**	-
Net interest credit on pension plan	**(6.0)**	(2.0)
Administrative expenses and taxes	**3.2**	1.6
Amounts charged to the income statement	**8.0**	12.5
Analysis of amounts recognised in group statement of comprehensive income:		
Return on plan assets (excluding interest income)	**(40.8)**	(31.1)
Effect of changes in demographic assumptions	**(2.4)**	(3.1)
Effect of changes in financial assumptions	**210.7**	(125.4)
Actuarial loss/(gain) recognised in the group statement of comprehensive income	**167.5**	(159.6)
Total defined benefit cost/(income) recognised in the income statement and statement of comprehensive income	**175.5**	(147.1)

Actuarial gains and losses are recognised as they occur in the group statement of comprehensive income.

The total employer contributions to the defined benefit plans for the year ending 31 March 2021 were £25.1m (2020: £25.0m). The total employer contributions to the defined contributions plan for the year ending 31 March 2021 were £3.8m (2020: £2.8m).

18. Pensions *(continued)*

(v) Reconciliation of opening and closing retirement benefit liabilities and assets

	2021 £m	2020 £m
Movements in the defined benefit obligation		
At 1 April	**(1,290.6)**	(1,460.7)
Current service cost	**(10.6)**	(12.9)
Past service cost	**(0.2)**	-
Interest expense	**(29.5)**	(34.0)
Remeasurements:		
Actuarial gains - demographic assumptions	**2.4**	3.1
Actuarial (losses)/gains - financial assumptions	**(210.7)**	125.4
Experience adjustment	**-**	-
Benefits paid	**71.1**	88.5
At 31 March	**(1,468.1)**	(1,290.6)
The total defined benefit obligation comprises:		
Amounts owing to active members	**(384.7)**	(320.7)
Amounts owing to deferred members	**(166.8)**	(156.0)
Amounts owing to retired members	**(916.6)**	(813.9)
Total defined benefit obligation at 31 March	**(1,468.1)**	(1,290.6)

	2021 £m	2020 £m
Changes in the fair value of plan assets:		
At 1 April	**1,536.3**	1,534.3
Return on plan assets (excluding interest income)	**40.8**	31.1
Interest income	**35.5**	36.0
Employer contributions	**25.1**	25.0
Benefits paid	**(71.1)**	(88.5)
Administrative expenses paid from plan assets	**(3.2)**	(1.6)
At 31 March	**1,563.4**	1,536.3

(vi) Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of plan liabilities and the resulting pension charge in the income statement and on the net defined benefit pension plan liability is set out below. The sensitivities provided assume that all other assumptions and the value of the plans' assets remain unchanged and are not intended to represent changes that are at the extremes of possibility.

18. Pensions *(continued)*

(vi) Sensitivity analysis *(continued)*

The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

Analysis of the impact on the net balance sheet position:

	Base 2021 £m	**Increase 0.25% discount rate £m**	**Decrease 0.25% inflation rate £m**	**Mortality minus one year age rating £m**
Fair value of plan assets	1,563.4	1,563.4	1,563.4	1,563.4
Present value of defined benefit obligation	(1,468.1)	(1,403.0)	(1,413.2)	(1,531.0)
Surplus in the plan	95.3	160.4	150.2	32.4

Actuarial assumptions used in sensitivity analysis:

	Base 2021 %	**Increase 0.25% discount rate** %	**Decrease 0.25% inflation rate** %	**Mortality minus one year age rating** %
Discount rate	2.15	2.40	2.15	2.15
Rate of RPI assumption	3.30	3.30	3.05	3.30
Rate of CPI assumption	2.70	2.70	2.45	2.70
Rate of salary increase	2.00	2.00	1.75	2.00

The inflation assumption sensitivity applies to both the assumed rate of increase in CPI and RPI and include the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

Maturity profile of defined benefit obligation:

The following table provides information on the weighted average duration of the defined benefit pension obligation:

	2021 Years	2020 Years
Duration of the defined benefit obligation	18	17

18. Pensions *(continued)*

(vi) Sensitivity analysis *(continued)*

The following table provides information on the distribution and timing of benefit payments:

	£m
Within 12 months	46.0
Between 1 and 2 years	47.0
Between 2 and 3 years	48.0
Between 3 and 4 years	50.0
Between 4 and 5 years	51.0
Between 5 and 10 years	276.0
Between 10 and 17 years	526.0

Funding arrangements

The last triennial funding valuation of the plan was carried out at 31 March 2018 and the next valuation is due as at 31 March 2021. In the year to 31 March 2021 the group made contributions based on pensionable pay and also paid lump sum deficit recovery contributions. Funding of the plan is also subject to the inflation mechanism entered into by KGPP as part of a de-risking mandate agreed with the Trustee. This includes reducing equity and interest rate risks and is aimed at reducing the volatility in future funding and contributions. This mechanism is based upon a long-term fixed inflation assumption for the plan valuation of 3.0% per annum. In set periods when actual inflation is higher than 3.0%, the group will make additional contributions for the increase in unhedged liabilities due to inflation in excess of 3%. Given the principal subsidiary of the group, Yorkshire Water, has a natural hedge against inflation as its revenue and debt are linked to RPI and CPIH, management believes that this is an appropriate structure to have in place until the actuarial deficit is eliminated and will be reviewed thereafter. Whilst this reduces the pension plan funding risk and therefore the actuarial valuation of the plan, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

(vii) Defined contribution plan

The group ran two defined contribution schemes for its employees. These were closed to new members on 30 September 2007 and replaced by one defined contribution scheme on 1 October 2007.

19. Equity and other reserves

	Number	1p shares	£1 shares	Total
	Allotted, called up and fully paid			
	As at 31 March 2020 and 2021			
	Number	1p shares	£1 shares	Total
		£	£	£
Equity shares	**1**	**0.01**	**750,000,000**	**750,000,000**

Also included within equity are reserves, the nature of which are as follows:

Profit and loss account: Cumulative profits or losses, net of revaluation of retirement benefits and dividends paid.

Revaluation reserve: Infrastructure assets, residential properties, specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 2 and note 12.

Hedging reserve: the group holds interest rate swaps. Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI) in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in profit or loss.

The hedging gain or loss recognised in OCI is reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends. For further details, see note 2 and note 20.

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 and share capital.

20. 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:

	2021 Less than one year £m	**2021 More than one year £m**	**2021 Total £m**	2020 Less than one year £m	Restated[1] 2020 More than one year £m	Restated[1] 2020 Total £m
Derivative financial assets:						
Inflation linked swaps	**-**	**119.1**	**119.1**		124.1	124.1
Fixed to floating interest rate swaps	**-**	**56.8**	**56.8**	-	77.8	77.8
Cross-currency interest rate swaps	**24.9**	**24.3**	**49.2**	-	88.8	88.8
Energy derivatives	**4.7**	**2.2**	**6.9**	-	-	-
Total derivative financial assets	**29.6**	**202.4**	**232.0**	-	290.7	290.7
Derivative financial liabilities:						
Inflation linked swaps	**-**	**(2,318.8)**	**(2,318.8)**	-	(2,223.7)	(2,223.7)
Lease interest swaps	**-**	**(21.1)**	**(21.1)**	-	(24.6)	(24.6)
Cross-currency interest rate swaps	**-**	**(4.0)**	**(4.0)**	-	(6.7)	(6.7)
Energy derivatives	**-**	**-**	**-**	-	(3.2)	(3.2)
Total derivative financial liabilities	**-**	**(2,343.9)**	**(2,343.9)**	-	(2,258.2)	(2,258.2)
Net debt:						
Cash and short-term deposits	**236.0**	**-**	**236.0**	323.2	-	323.2
Borrowings	**(599.0)**	**(6,862.2)**	**(7,461.2)**	(370.8)	(7,041.4)	(7,412.2)
Total net debt	**(363.0)**	**(6,862.2)**	**(7,225.2)**	(47.6)	(7,041.4)	(7,089.0)

[1] Restated see note 2

20. Financial instruments *(continued)*

The following table summarises the fair value movements on the derivative instruments:

	2021	2020
	£m	£m
Included in finance costs		
Movement in fair value of inflation linked swaps	**98.9**	31.5
Movement in fair value of lease interest rate swaps	**(1.2)**	4.7
Movement in fair value of cross-currency interest rate swaps	**37.4**	(27.5)
Movement in fair value of foreign currency debt	**(35.6)**	26.8
Movement in fair value of fixed to floating interest rate swaps	**23.3**	(22.4)
Movement in the fair value of debt associated with fixed to floating interest rate swaps	**(20.8)**	22.8
Movement in fair value of energy derivatives	**(0.4)**	4.3
Net fair value movement	**101.6**	40.2

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 2021 resulted in a net liability of £2,199.7m (2020: £2,099.6m liability), comprising £119.1m assets and £2,318.8m liabilities (2020: £124.1m assets and £2,223.7m liabilities (Restated[1])). Also included within the net liability are net assets of £88.2m (2020: £53.6m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior years.

This year has seen the liability on the inflation linked swaps increase by £100.1m (2020: £32.1m increase). Of this amount, £98.9m relates to the fair value movement as disclosed above (2020: £31.5m cost), £16.7m relates to net interest receivable on index linked swaps and £15.5m relates to an accretion payment made in the year.

Movement in the fair value of cross-currency interest rate swaps and associated debt

The group holds a number of 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. The carrying value of associated debt designated in the hedge relationships has been adjusted for the hedged risk. The movement in the valuation of the cross-currency interest rate swaps has resulted in £37.4m expense (2020: £27.5m income) to the profit and loss account. This is offset by the fair value movement in the associated debt of £35.6 income (2020: £26.8m expense). The net impact to the profit and loss account is £1.8m of expense (2020: £0.7m income). Currency basis has been included in the hedge designation which acts as a source of ineffectiveness.

Movement in the fair value of fixed to floating interest rate swaps and associated debt

The group holds a number of fixed to floating interest rate swaps which are designated in fair value hedge relationships and have been valued at the reporting date at fair value. The carrying value of associated debt designated in the hedge relationships has been adjusted for the hedges risk. The fair value movement of fixed to floating interest rate swaps has resulted in £23.3m expense (2020: £22.4m income) to the profit and loss account. The fair value movement of associated debt is £20.8m income (2020: £22.8m expense). This is a total impact to the profit and loss account of £2.5m of expense (2020: £0.4m expense). This represents ineffectiveness in the hedge relationships due to factors such as credit risk.

20. Financial instruments *(continued)*

(a) Interest rate risk profile of financial assets and liabilities

The following table provides information about the maturity of the nominal amount and interest payable rates attached to the swaps held by group as of 31 March 2021 to hedge its interest rate risk:

	Period of maturity			
	First year	**Second to fifth year**	**After five years**	**Total**
	£m	**£m**		**£m**
	31 March 2021	**31 March 2021**	**31 March 2021**	**31 March 2021**
Notional amount (GBP)	144.6	146.9	430.0	721.5
Average interest rate – fixed to floating interest rate swaps	-	-	2.4%	-
Average interest rate – cross-currency interest rate swaps (USD)	2.1%	2.0%	-	-
Average interest rate – cross-currency interest rate swaps (AUD)	-	2.1%	-	-

(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 Yorkshire Water's regulatory capital value (RCV).

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

Credit risk

The group has some exposure to credit risk through the holding of receivables on the year end balance sheet. The credit risk associated with these balances is heightened in the year ended 31 March 2021 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 wastewater 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.

Risks associated with receivables include limits on the group's ability to restrict supply. However, this does not apply to all receivables. The credit risk is mitigated by introducing payment plans, providing advice and support to customers where this is viable and where it is considered necessary, using legal procedures to reclaim outstanding debts.

Other risks associated with 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.

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Credit risk *(continued)*

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.

Cash and short-term deposits are 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.

At 31 March, the maximum exposure to credit risk for the group represented by the carrying amount of each financial asset in the statement of financial position is as follows:

	2021	2020
	£m	£m
Cash and short-term deposits (note 13)	**236.0**	323.2
Trade and other receivables (note 12)	**414.3**	267.5

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 and refinance existing indebtedness, 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 issued with a range of durations, and obtained from a variety of sources. The maturity profile is actively managed by the group's treasury function. Existing bank covenants require the group to maintain a combination of available cash balances and banking facilities sufficient to cover certain requirements for the succeeding 12 months. This is a rolling requirement. Further facilities are not expected to be required within the next year to comply with the covenants.

At 31 March 2021 the group had £726.8m of available liquidity (2020: £853.4m) which comprised £236.0m in available cash and short-term deposits (2020: £323.2m) and £490.8m of undrawn committed borrowing facilities (2020: £530.2m).

The liquidity profile of the group's financial assets and liabilities at 31 March 2021 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.

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Liquidity risk *(continued)*

Year ended 31 March 2021

	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
Fixed rate							
Bank loans	9.4	4.6	4.6	4.6	4.6	190.8	218.6
Guaranteed sterling bonds and notes	117.7	535.1	94.3	97.5	95.9	3,157.2	4,097.7
USD notes	177.5	5.0	134.5	-	-	-	317.0
AUD bonds	1.6	1.6	27.7	-	-	-	30.9
	306.2	546.3	261.1	102.1	100.5	3,348.0	4,664.2
Floating rate							
Inflation linked guaranteed sterling bonds and notes	29.8	29.8	29.8	29.8	29.8	1,938.3	2,087.3
Inflation linked bank borrowings	2.6	2.6	2.7	2.6	2.6	287.2	300.3
Other bank borrowings	447.3	97.7	30.8	124.5	27.6	351.1	1,079.0
Notes issued by Kelda Eurobond	117.8	1,782.4	-	-	-	-	1,900.2
	597.5	1,912.5	63.3	156.9	60.0	2,576.6	5,366.8
Derivative financial instruments							
Inflation linked swaps	69.9	(1.8)	0.1	9.6	70.6	1,444.9	1,593.3
Fixed to floating interest rate swaps	(10.2)	(10.2)	(9.1)	(11.3)	(10.2)	(46.0)	(97.0)
Cross-currency interest rate swaps	(29.9)	(4.5)	(14.0)	-	-	-	(48.4)
Lease interest rate swaps	2.5	2.5	2.5	2.5	2.5	13.5	26.0
	32.3	(14.0)	(20.5)	0.8	62.9	1,412.4	1,473.9
Non-interest bearing financial liabilities							
Trade payables	149.6	-	-	-	-	-	149.6
Other payables	182.4	11.5	-	-	-	-	193.9
	332.0	11.5	-	-	-	-	343.5

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Liquidity risk *(continued)*

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
Fixed rate							
Bank loans	27.2	9.5	4.6	4.6	4.6	195.0	245.5
Guaranteed sterling bonds and notes	120.4	120.4	535.8	98.6	98.7	3,283.5	4,257.4
USD notes	10.4	153.4	4.4	116.2	0.0	0.0	284.4
AUD bonds	2.0	2.0	2.0	34.5	0.0	0.0	40.5
	160.0	285.3	546.8	253.9	103.3	3,478.5	4,827.8
Floating rate							
Inflation linked guaranteed sterling bonds and notes	29.3	29.3	29.3	29.3	29.3	1,936.5	2,083.0
Inflation linked bank borrowings	2.7	2.7	2.8	2.9	2.9	320.1	334.1
Other bank borrowings	36.1	114.0	97.2	30.7	120.2	270.4	668.6
Notes issued by Kelda Eurobond	120.9	130.4	1,678.7	0.0	0.0	0.0	1,930.0
	189.0	276.4	1,808.0	62.9	152.4	2,527.0	5,015.7
Derivative financial instruments							
Inflation linked swaps	52.5	148.6	114.6	57.1	73.3	1,627.7	2,073.8
Fixed to floating interest rate swaps	8.7	8.7	8.7	8.7	8.7	45.3	88.8
Cross-currency interest rate swaps	6.7	6.7	6.7	6.1	0.0	0.0	26.2
Lease interest rate swaps	2.3	2.3	2.3	2.3	2.3	14.1	25.6
	70.2	166.3	132.3	74.2	84.3	1,687.1	2,214.4
Non-interest bearing financial liabilities							
Trade payables	113.5	-	-	-	-	-	113.5
Other payables	199.0	4.7	-	-	-	-	203.7
	312.5	4.7	-	-	-	-	317.2

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Liquidity risk *(continued)*

There has been a presentational change to the above table, compared to that previously published. The classification of certain cash flows has been amended to more accurately reflect their nature, and cash flows relating to derivative financial instruments are now shown separate to borrowings.

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:

	2021	2020
	£m	£m
Impact on profit before tax		
1% increase in RPI leading to a decrease in profit	**31.6**	11.0
1% decrease in RPI leading to an increase in profit	**(31.7)**	(11.0)
1% increase in LIBOR leading to an increase in profit	**21.6**	25.9
1% decrease in LIBOR leading to a decrease in profit	**(7.3)**	(14.7)

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 to the maturity date of 29 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with an average remaining life of 10 years.

(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;

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

- 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).

Certain instruments shown as Level 2 as at 31 March 2020 are shown at Level 1 at 31 March 2021, as the company has access to quoted prices in active market for identical instruments at this latter date.

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)
	2021	2020 [1] Restated		
1. Interest rate swaps, cross-currency swaps, inflation linked swaps, fixed rate bonds and inflation linked bonds	Assets: £215.7m Liabilities: £1,584.1m	Assets: £273.6m Liabilities: £1,789.4m	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. Bank loans and overdrafts	Liabilities: £914.7m	Liabilities: £nil	Level 2	Fair values of bank loans and overdrafts are calculated by discounting expected future cash flows using prevailing rates including credit spreads observable in publicly traded instruments.

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

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
	2021	**2020** [1] Restated				
3. Inflation linked swaps, bank loans and overdrafts	Assets: £9.4m Liabilities: £1,709.8m	Assets: £8.5m Liabilities: £1,374.9m	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.	• Counter-party cost of funding assumption. • Assumptions relating to long-term credit beyond observable curves • Recovery rates Bank loans and overdrafts: • Level 3 instrument valuations relate to CPI linked transactions where inputs are from a less liquid market.	Unobservable inputs contribute on average to 22.0% of the fair value of level 3 instruments, equaling a total of £495.2m 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 £147.6m higher or lower.

[1] Restated see note 2

The following table provides the fair values of the group's financial assets and liabilities at 31 March 2021. Some of the company'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). The level for inflation linked swaps is determined through assessing the percentage of the Debit Value Adjustment (DVA) and Funding Value Adjustment (FVA) of the Dirty Mark to Market value of each swap. 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.

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2020 Level 1 £m	[1]Restated 2020 Level 2 £m	[1]Restated 2020 Level 3 £m
Primary financial instruments financing the group's operations						
Financial assets held at amortised cost						
Loans to associates/joint ventures	**-**	**2.1**	**-**	-	2.0	-
Financial assets measured as Fair Value Through Profit and Loss						
Inflation linked swaps	**-**	**109.7**	**9.4**	-	107.0	8.5
Fixed to floating interest rate swaps	**-**	**56.8**	**-**	-	77.8	-
Cross-currency interest rate swaps	**-**	**49.2**	**-**	-	88.8	-
Energy derivative	**-**	**-**	**-**	-	(0.4)	-
Financial liabilities measured as Fair Value Through Profit and Loss or in fair value hedge relationships						
Finance lease interest rate swaps	**-**	**(21.1)**	**-**	-	(24.6)	-
Cross-currency interest rate swaps (USD and AUD)	**-**	**(4.0)**	**-**	-	(6.7)	-
Inflation linked swaps	**-**	**(751.4)**	**(1,567.4)**	-	(893.8)	(1,374.9)
Fixed rate USD bonds and notes	**-**	**(298.6)**	**-**	-	(343.2)	-
Fixed rate AUD bonds	**-**	**(36.5)**	**-**	-	(27.5)	-
Fixed rate sterling bonds and notes	**-**	**(472.5)**	**-**	-	(493.5)	-
Designated as Fair Value Through Other Comprehensive Income						
Energy derivative	**-**	**6.9**	**-**	-	(2.8)	-
Financial liabilities held at amortised cost not in fair value hedge relationships						
Fixed rate sterling bonds and notes	**(2,562.1)**	**(274.3)**	**-**	(1,755.3)	(1,124.1)	-
Inflation linked sterling bonds	**(459.0)**	**(1,276.0)**	**-**	(444.0)	(1,195.8)	-
Floating rate sterling notes	**-**	**(66.0)**	**-**	-	(74.4)	-
Bank loans and overdrafts	**(330.8)**	**(914.7)**	**(142.4)**	(1,235.6)	-	-
Bonds issued by Kelda Eurobond Co Limited	**-**	**(1,802.6)**	**-**	(1,550.1)	-	-

The 2020 fair values of inflation linked swaps do not include £53.6m net assets relating to day one deferred gains and losses. The 2021 fair values of inflation linked swaps above include £88.2m net assets relating to day one deferred gains and losses.

[1] Restated see note 2

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

***Reconciliation of Level 3 fair value measurements of financial liabilities*:**

	Inflation swaps £m
Balance at 1 April 2020	1,366.4
Total unrealised gains or losses:	
- included within finance costs in the profit or loss	101.4
Transfers from Level 2 to Level 3	111.5
Change of presentation – inclusion of deferred gains/losses	(21.3)
Balance at 31 March 2021	**1,558.0**

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 2021:

	Reflected in profit or loss	
	Favourable change £m	**Unfavourable change £m**
Level 3 index linked swap assumptions:		
Ten basis point change in counter-party funding assumption	41.4	(41.4)
Ten basis point change to credit curve assumption	27.9	(27.9)
10% change in recovery rate assumption	78.3	(78.3)
Level 3 bank borrowing assumptions:		
Ten basis point change in RPI to CPI wedge	1.2	(1.2)

The fair value of net derivative financial liabilities of £2,111.9m would be £45.1m (2020: £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 £2,111.9m would be £31.2m (2020: £31.6m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,111.9m would be £87.4m (2020: £89.8m) 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.

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

Inflation linked swaps

The company 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 8 for further details).

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps, this is incorporated into the fair value of the derivative. The RPI bullet accrued to 31 March 2021 was £229.5m (2020: £223.3m) which has been reduced by £42.5m (2020: £69.3m) 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 £2,318.8m and a fair value asset of £119.1m (2020: £2,223.7m liability and £124.1m asset (restated[1])) at the year end date. Included in this amount, £187.0m (2020: £154.0m) represents the discounted value of the RPI bullet accrued to 31 March 2021.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2021 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. 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 £502.1m (2020: £541.3m).

[1] Restated see note 2

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

Interest rate swaps

The group entered into several multi-currency interest rate swap transactions involving 15 Fixed USD notes and one AUD bond, referred to as cross-currency interest rate swaps between 2011 and 2013. As detailed in this note above, the net impact of the fair value movement on the swaps and associated debt resulted in a net expense of £1.8m (2020: £0.7m income) 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 expense of £37.4m being recognised in the income statement (2020: £27.5m income). This is offset by the change in fair value of the associated debt resulting in income of £35.6m (2020: £26.8m expense). Of the change in fair value of the associated debt, £37.8m income (2020: £29.3m expense) relates to Fixed USD notes and £2.2m expense (2020: £2.5m income) relates to the AUD bond.

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 an expense of £23.3m recognised in the income statement (2020: £22.4m income). There is a change in fair value of the associated bonds of £20.8m income (2020: £22.8m expense). The expense relating to the fair value of the individual associated bonds is as follows. £9.7m of income (2020: £12.2m of income) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £264.9m (2020: £274.7m) at 31 March 2021. £6.5m (2020: £6.3m decrease) increase in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £105.3m (2020: £11.8m) at 31 March 2021. The remaining £4.6m change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £102.4m (2020: £107.0m) at 31 March 2021.

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 income of £1.2m recognised in the income statement (2020: £4.7m charge).

(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 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 104.3% (2020: 105.1%). At the Kelda finance group level the proportion was 96.3% (2020: 97.3%) at the financial year end.

Hedging of interest due under leases

The group holds two floating to fixed rate interest swaps that economically hedge interest payments on leases. These swaps are not in hedge relationships.

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

***Fair value* hedges** *(continued)*

Fair value hedges

Cross-currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the group's USD notes, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The group has recognised an asset of £49.2m (2020: £88.8m) 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 profit and loss account 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 notes was adjusted for a fair value gain of £37.8m (2020: £29.3m loss) which was included in the profit and loss account at the same time that the fair value of the cross-currency interest rate swap was included in the profit and loss account.

The group has a £33.8m cross-currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an AUD bond, which is designated as a fair value hedge with the bonds of the same value. The hedge was highly effective in hedging the fair value exposure to interest rate movements in the year. The group has made an adjustment of £2.7m (2020: £2.8m loss) 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 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 highly 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 loss of £2.2m (2020: £2.5m gain) which was included in the profit and loss account at the same time that the fair value of the cross-currency interest rate swap was included in the profit and loss account.

The group has three fixed to floating interest rate swaps with nominal values of £250m, £90m and £90m. These are designated as fair value hedges of fixed rate bonds of the same value. The hedges were highly effective in hedging the fair value exposure to interest rate movements. The group has recognised assets of £56.8m (2020: £77.8m) 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 highly effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £20.8m (2020: £22.8m gain) which was included in the profit and loss account at the same time that the fair value of the fixed to floating interest rate swap was included in the profit and loss account.

Cash flow hedges

The group holds energy derivatives, 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 gain of £9.7m (2020: £2.8m loss) on the derivatives from £3.2m liabilities to £6.9m assets (2020: movement from £3.9m assets to £3.2m liabilities) has been recognised in other comprehensive income. The remaining £0.4m gain (2020: £4.3m loss) has been recognised in the profit and loss account. The nominal amounts of cash flow hedging instruments is 438,120 MWh. The change in fair value of hedging instrument and hedging item for calculating hedge ineffectiveness results in hedge ineffectiveness of £0.7m.

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

Foreign currency risk management

The group has a number of long-term interest bearing liabilities denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising cross-currency interest rate swaps.

Impact of hedging instruments designated in hedging relationships

The impact of hedging instruments designated in hedging relationships as of 31 March 2021 on the group's consolidated statement of financial position is as follows:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the consolidated statement of financial position where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
		Assets	Liabilities		
	£m	£m	£m		£m
Fair value hedges	**31 March 2021**	**31 March 2021**	**31 March 2021**	**31 March 2021**	**31 March 2021**
Fixed to floating interest rate swaps	**430.0**	**56.8**	**-**	**Derivative financial asset**	**(21.1)**
Cross-currency interest rate swaps (USD)	**257.7**	**49.2**	**-**	**Derivative financial asset**	**(39.6)**
Cross-currency interest rate swaps (AUD)	**33.8**	**-**	**(4.0)**	**Derivative financial liability**	**2.7**

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the consolidated statement of financial position where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
		Assets	Liabilities		
	£m	£m	£m		£m
Fair value hedges	31 March 2020	31 March 2020	31 March 2020	31 March 2020	31 March 2020
Fixed to floating interest rate swaps	430.0	77.8	-	Derivative financial asset	22.4
Cross-currency interest rate swaps (USD)	257.7	88.8	-	Derivative financial asset	30.3
Cross-currency interest rate swaps (AUD)	33.8	-	(6.7)	Derivative financial liability	(2.7)

20. 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 2021, on the group's consolidated statement of financial position 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 statement of financial position 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	Liabilities	Assets	Liabilities	Assets	Liabilities			
	£m	£m	£m	£m	£m	£m	£m	£m	£m
	2021	2021	2021	2021	2021	2021	2021	2021	2021
Fair value hedges									
Interest rate risk hedged by fixed to floating swaps	-	(472.5)	-	(45.6)	-	-	Borrowings	(20.8)	-
Interest rate risk hedged by cross-currency interest rate swaps (USD)	-	(305.4)	-	(48.1)	-	-	Borrowings	(37.8)	-
Interest rate risk hedged by cross-currency interest rate swaps (AUD)	-	(29.7)	4.2	-	-	-	Borrowings	2.2	-

20. 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 statement of financial position 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
	£m	£m	£m	£m	£m	£m	£m	£m	£m
	2020	2020	2020	2020	2020	2020	2020	2020	2020
Fair value hedges									
Interest rate risk on fixed to floating swaps	-	(343.2)	-	(66.3)	-	-	Borrowings	(22.8)	-
Interest rate risk on cross-currency interest rate swaps (USD)	-	(257.1)	-	(86.0)	-	-	Borrowings	(29.3)	-
Interest rate risk on cross-currency interest rate swaps (AUD)		(27.5)	-	6.3	-	-	Borrowings	2.5	-

20. Financial instruments *(continued)*

e) Offsetting financial assets and liabilities

No financial assets have been offset against financial liabilities. Balances which are subject to master netting agreements or similar are as follows:

	Amounts available to be offset (but not offset on the consolidated statement of financial position)			
	Gross and net amounts reported on the consolidated statement of financial position	**Master netting agreements**	**Financial collateral**	**Net balance**
	2021	**2021**	**2021**	**2021**
	£m	**£m**	**£m**	**£m**
Derivative financial assets	**232.0**	**(179.9)**	**(8.1)**	**44.0**
Derivative financial liabilities	**(2,343.9)**	**179.9**	**-**	**(2,164.0)**

	Amounts available to be offset (but not offset on the consolidated statement of financial position)			
	Gross and net amounts reported on the consolidated statement of financial position	Master netting agreements	Financial collateral	Net balance
	[1] Restated			[1] Restated
	2020	2020	2020	2020
	£m	£m	£m	£m
Derivative financial assets	290.7	(208.8)	(14.1)	67.8
Derivative financial liabilities	(2,258.3)	208.8	-	(2,049.5)

[1] Restated see note 2

20. Financial instruments *(continued)*

f) Deferred 'day one' (losses)/gains

Several transactions have been completed to restructure 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:

	2021	2020
	£m	£m
Balance at 1 April	**(53.7)**	(55.4)
Deferred 'day one' (losses) recognised during the year	**(37.4)**	-
Deferred 'day one' amounts realised during the year	**2.9**	1.7
Balance at 31 March	**(88.2)**	(53.7)

21. Additional cash flow information

Analysis of movement in net debt from continuing operations

	At 31 March 2019 £m	Non cash movements £m	Cash movements £m	At 31 March 2020 £m	**Non cash movements £m**	**Cash movements £m**	**At 31 March 2021 £m**
Cash and cash equivalents	70.1	-	253.1	323.2	**-**	**(87.2)**	**236.0**
Debt due within one year	(2,282.5)	1,672.3	239.4	(370.8)	**(268.2)**	**40.0**	**(599.0)**
Finance leases due within one year	(14.2)	14.2	-	-	**-**	**-**	**-**
	(2,296.7)	1,686.5	239.4	(370.8)	**(268.2)**	**40.0**	**(599.0)**
Debt due after one year	(4,484.2)	(1,887.6)	(669.6)	(7,041.4)	**173.3**	**5.9**	**(6,862.2)**
Finance leases due after one year	(87.8)	87.8	-	-	**-**	**-**	**-**
	(4,572.0)	(1,799.8)	(669.6)	(7,041.4)	**173.3**	**5.9**	**(6,862.2)**
Net debt relating to continuing activities	(6,798.6)	(113.3)	(177.1)	(7,089.0)	**(94.9)**	**(41.3)**	**(7,225.2)**

Net debt does not include financial liabilities which are not considered to be part of the group's borrowings.

21. Additional cash flow information _(continued)_

Cash used as noted in the group (including discontinued operations) cash flow statement can be derived as follows:

	2021	2020
	£m	£m
Total loss for the year	**(149.2)**	(192.2)
Tax (credit)/charge	**(7.5)**	28.0
Loss before taxation	**(156.7)**	(164.2)
Finance income before fair value movements	**(9.8)**	(7.0)
Finance costs before fair value movements	**318.6**	344.2
Net fair value movements (non-cash) on finance income and costs	**101.6**	40.2
Depreciation	**302.7**	316.3
Amortisation of capitalised bid costs and software	**26.0**	17.0
Profit on disposal of operations	**-**	(3.4)
Profit on disposal of property, plant and equipment	**(2.3)**	(0.6)
Impairment of property, plant and equipment		
Amortisation of capital grants	**(11.6)**	(10.9)
Increase in inventories	**(1.1)**	(0.4)
Increase in trade and other receivables	**(15.4)**	(33.3)
Increase in trade and other payables	**38.2**	26.3
Pension contributions in excess of operating costs	**(11.1)**	(10.5)
Movements in provisions	**0.5**	0.7
Other movements	**(2.0)**	(0.4)
Capital contributions	**35.9**	26.8
Cash generated from operating activities	**613.5**	540.8

22. Commitments

	2021	2020
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**378.2**	351.4

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2020 to 2025, was agreed as part of the AMP7 Price Review process. £9.6m in 2021 (2020: £13.4m) of the above capital commitments relate to intangibles (software).

23. Related parties

Group companies have extended finance to several associates and joint ventures on a proportionate basis with other principal stakeholders.

	Loans to related parties 2021 £m	Loans to related parties 2020 £m
Joint ventures		
Whinmoor Limited	**0.3**	0.2
Templegate Developments Limited	**0.9**	0.9
Sir Robert Ogden Evans Property Partnership Limited	**0.8**	0.8
	2.0	1.9

The loans carry market rates of interest. Total interest received on loans to associated undertakings and joint ventures was £nil (2020: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2021 the group made provisions totalling £500 for doubtful debts relating to amounts owed by related parties (2020: £nil). During the year dividends received from related parties totalled £nil (2020: £nil).

There were no other material transactions between the group and its associated undertakings and joint ventures during the year.

Compensation of key management personnel (including directors):

	2021 £m	2020 £m
Short-term benefits	**3.1**	3.2

24. 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:

Water services	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Services Limited	England & Wales	UK	Ordinary	100%

Other activities	Country of incorporation	Country of tax residence	Class of share in issue	Proportion of class of share held
Keyland Developments Limited	England & Wales	UK	Ordinary	100%
Kelda Energy Services (Old Whittington) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Limited	England & Wales	UK	Ordinary	100%
Three Sixty Water Services (Yorkshire) Limited	England & Wales	UK	Ordinary	100%
Kelda Water Services (Projects) Limited	England & Wales	UK	Ordinary	100%
Kelda Transport Management Limited	England & Wales	UK	Ordinary	100%
Safe-Move Limited	England & Wales	UK	Ordinary	100%
Loop Customer Management Limited	England & Wales	UK	Ordinary	100%
Southern Pennines Rural Regeneration Company Limited[1]	England & Wales	UK	Limited by guarantee	100%
Yorkshire Water Estates Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Limited	England & Wales	UK	Ordinary	100%
Kelda Limited	England & Wales	UK	Ordinary	100%
Kelda Group Pension Trustees Limited	England & Wales	UK	Ordinary	100%
Ridings Insurance Company Limited	Isle of Man	Isle of Man	Ordinary	100%
Glandwr Cyfyngedig	England & Wales	UK	Ordinary	100%
Saltaire Water Limited	England & Wales	UK	Ordinary	100%
Templegate Developments Limited [JV]	England & Wales	UK	Ordinary	50%
Springswood Limited[2 JV]	England & Wales	UK	Ordinary	50%
Tingley Limited[2 JV]	England & Wales	UK	Ordinary	50%
Whinmoor Limited[2 JV]	England & Wales	UK	Ordinary	50%
White Laith Developments Limited[2 A]	England & Wales	UK	Ordinary	37.5%
Rampart Developments Limited[2 A]	England & Wales	UK	Ordinary	25%
The Sir Robert Ogden Partnership Limited[2 A]	England & Wales	UK	Ordinary	25%
The Sir Robert Ogden-Evans Property Partnership Limited[2 A]	England & Wales	UK	Ordinary	25%

24. Subsidiary companies *(continued)*

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Holding and finance companies				
Kelda Group Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Kelda Non-Reg Holdco Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Finance Plc	England & Wales	UK	Ordinary	100%
Kelda Finance (No.1) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) Plc	England & Wales	UK	Ordinary	100%

Registered office address:

[1] Canal & Visitors' Centre, Butler's Wharfe, New Road, Hebden Bridge HX7 8AF
[2] Millshaw Ring Road, Beeston, Leeds, West Yorkshire LS11 8EG
[JV] Joint Venture
[A] Associate – All associates are property development and investment companies.

25. Ultimate controlling party

The company's immediate and ultimate parent company is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK. In the opinion of the directors there is no ultimate controlling party.

Kelda Holdings Limited is the only other company, and largest company, to consolidate the company's financial statements and copies of the group Financial Statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ.

26. Contingent liabilities

Five claims have been issued at various dates between December 2019 and March 2021 against Yorkshire Water by personal search companies (PSCs). The claims relate to historical search fees that PSCs have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee under the Environmental Information Regulations 2004. 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 PSCs. Yorkshire Water denies liability in relation to the claims. Further, the total value to which the claims could amount, or the timing of any cash flow is not known.

27. Post balance sheet event

On 20 April 2021, Yorkshire Water Finance Plc agreed terms for the issue of £350.0m of sustainability bonds with a tenor of 11.5 years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m revolving credit facility.

Kelda Finance (No.2) Limited successfully raised £77.0m in new loan and note facilities on 18 May 2021. Proceeds were used alongside surplus funds to refinance an existing loan due in August 2021 and pay associated fees. Further details can be found in note 14 of the Kelda Finance (No.2) Limited Annual Report and Financial Statements for the year ended 31 March 2021.

Kelda Eurobond Co Limited
Company Balance Sheet
as at 31 March 2021

	Notes	2021 £m	Restated[1] 2020 £m
Fixed assets			
Investments	*3*	**3,172.2**	3,172.2
Debtors	*4*	**141.9**	138.5
		3,314.1	3,310.7
Current assets			
Debtors	*4*	**12.0**	10.0
Cash		**-**	(0.7)
Creditors: amounts falling due within one year	*5*	**(1,241.2)**	(1,248.5)
Net current liabilities		**(1,229.2)**	(1,239.2)
Total assets less current liabilities		**2,084.9**	2,071.5
Creditors: amounts falling due after more than one year	*6*	**(1,668.5)**	(1,550.1)
Net assets		**416.4**	521.4
Capital and reserves			
Called up share capital	*8*	**750.0**	750.0
Profit and loss account		**(333.6)**	(228.6)
Total shareholders' funds		**416.4**	521.4

The loss generated by the parent company for the year ended 31 March 2021 was £105.0m (2020: profit £12.0m). Advantage has been taken of the exemption available under section 408 of the Companies Act not to present a profit and loss account for the company alone.

The financial statements on pages 141 to 147 were approved by a duly authorised committee of the Board of directors on 15 July 2021 and signed on its behalf by:

Liz Barber
Chief Executive Officer
Kelda Eurobond Co Limited
Registered in England no. 06433768

[1] Restated, see note 1

Kelda Eurobond Co Limited

Company statement of changes in equity

for the year ended 31 March 2021

	Ordinary shares £m	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2019	750.0	(240.6)	509.4
Profit for the year	-	12.0	12.0
At 1 April 2020	**750.0**	**(228.6)**	**521.4**
Loss for the year	**-**	**(105.0)**	**(105.0)**
At 31 March 2021	**750.0**	**(333.6)**	**416.4**

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, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The consolidated financial statements of the group headed by the company have been prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

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

- a Cash Flow Statement and related notes;
- comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- the impact of certain requirements of IAS 1, IAS 36, IFRS 7 and IFRS 13;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of Key Management Personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The accounting policies shown below have been applied consistently throughout the current and prior year.

Taxation

Current tax

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date, subject to the following:

- provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted.

1. Company accounting policies *(continued)*

Investments in subsidiaries

Investments in subsidiaries are state at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Financial instruments

Creditors

Creditors are not interest bearing and are stated at their nominal value.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Dividends receivable

Dividends receivable are recognised when the shareholders' right to receive the revenue is established

Redemption of preference shares

Instances of redemption of preference shares are recognised on approval from shareholders.

Interest receivable

Interest receivable is recognised as the interest accrues using the effective interest method.

Share capital

Ordinary shares are classified as equity.

Audit exemption - Parent Company Guarantee

For the year ended 31 March 2021 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.,

Subsidiary Name	Companies House Registration Number
Three Sixty Water (Yorkshire) Limited	09921036
Three Sixty Water Services Limited	05612103
Three Sixty Water Limited	09919590
Saltaire Water Limited	06433802
Kelda Transport Management Limited	10487343
Kelda Non-reg Holdco Limited	06433788
Kelda Energy Services (Old Whittington) Limited	06690788

Prior year restatement

In the year ended 31 March 2021, there has been a presentational change to the debtors due over one year balance reported as at 31 March 2020. There has been a reclassification of £138.5m from current assets to fixed assets. There has been no impact on net assets as a result of this reclassification.

	Reported 2020 £m	Adj £m	Restated 2020 £m
Fixed assets	3,053.6	138.5	3,192.1
Debtors	148.5	(138.5)	10.0
Current assets	(1,100.7)	(138.5)	(1,239.2)
Net assets	521.4	-	521.4

2. Critical accounting judgements and key sources of estimation uncertainty

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

3. Investments

	£m	£m
As at 1 April 2020 and 31 March 2021	**3,172.2**	3,172.2

A list of the subsidiaries of the company can be found in note 24. The directors believe that the carrying value of the investments is supported by their underlying net assets.

4. Debtors

	2021	2020
	£m	£m
Amounts falling due within one year:		
Amounts owed by parent undertaking	**0.3**	0.4
Amounts owed by group undertakings	**11.7**	9.6
	12.0	10.0
Amounts falling due after more than one year:		
Amounts owed by parent undertaking	**141.9**	138.5
	141.9	138.5

Amounts falling due within one year are unsecured, interest free, have no contractual repayment date and are repayable on demand.

Amounts due after more than one year are unsecured, bear interest at six month LIBOR plus margin and have no contractual repayment date. Although the loans are repayable on demand, there is no expectation that such a demand will be made in the financial year ending 31 March 2022.

5. Creditors: amounts falling due within one year

	2021	2020
	£m	£m
Amounts falling due within one year:		
Amounts owed to group undertakings	**1,228.9**	1,235.0
Other creditors	**12.3**	13.5
	1,241.2	1,248.5

5. Creditors: amounts falling due within one year (continued)

Amounts owed to group undertakings are unsecured, repayable on demand, and carry interest rates of six month LIBOR with margins of between 0.7% and 6% being applied to different tranches of loan. Included within the balance is a loan of £743.9m (2020: loan of £743.9m) which bears interest at 4.25% above LIBOR.

6. Creditors: amounts falling due after more than one year

	2021	2020
	£m	£m
Amounts falling due after more than one year:		
Interest-bearing loans and borrowings	**1,668.5**	1,550.1

The bonds are repayable in February 2023 and bear interest at 7.00% above LIBOR.

7. Other information

The company had no employees throughout the year ended 31 March 2021 (2020: none).

Details of directors' emoluments are set out in the directors' remuneration report of the group. No elements related specifically to their work in the company.

Disclosure notes relating to share capital, financial instruments and auditors' remuneration are included within the financial statements of the group.

8. Called up share capital

	Ordinary shares 1p		**Ordinary shares £1**	
	Number	**1p shares**	**Number**	**£1 shares**
		£		**£**
Issued and fully paid				
As at 31 March 2020 and 31 March 2021	**1**	**0.01**	**750,000,000**	**750,000,000**

9. Ultimate controlling party

The company's immediate and ultimate parent company is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK. In the opinion of the directors there is no ultimate controlling party.

Kelda Holdings Limited is the only other company, and largest company, to consolidate the company's financial statements and copies of the group Financial Statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ. The smallest company to consolidate the company's financial statements is Kelda Eurobond Co Limited as included earlier in this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KELDA EUROBOND CO LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Kelda Eurobond Co Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (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 which comprise:

- the consolidated statement of profit or loss;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 27 of the group accounts; and
- the related notes 1 to 7 of the parent company accounts.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB. 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 FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.
We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Goodwill impairment; • Valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable; • Valuation of infrastructure assets; and • Valuation of derivatives. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the group financial statements was £20m which was determined on the basis of 3.5% of Adjusted earnings before interest, tax, depreciation and amortisation (“Adjusted EBITDA”) This metric is reconciled within the Alternative Performance Measures outlined by the group.
Scoping	Our audit scoping covered 99% to 100% of the Group’s net operating assets, profit before tax and Adjusted EBITDA.
Significant changes in our approach	We no longer consider going concern to be a key audit matter as the prior year accounts were published at the start of the Covid-19 pandemic which resulted in high levels of uncertainty over the forecasted cash flows for the business in the going concern period. In comparison to 2020 the uncertainty over these cash flows as at 2021 has reduced as management has been able to understand the impact on the business and consider this within their future forecasts. Additionally as the Competition and Markets Authority (“CMA”) appeal has now concluded this further reduces uncertainty over future cash flows, with a final determination for the regulatory period 2020-2025 now agreed.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included:

- understanding financing facilities including compliance with interest cover ratio covenants;
- understanding how the going concern model mirrors the business model and forecasts used for impairment testing;
- challenging the key assumptions used in the forecasts, such as revenue levels and capex, including the ongoing impact of Covid-19 by assessing the final determination from the CMA appeal.
- assessing the maturity profile of the company’s debt and the liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including consideration of the market, latest third party economic forecasts and FY22 results to date;
- assessing the historical accuracy of forecasts prepared by management; and
- assessing the appropriateness of the going concern disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

5.1. Goodwill Impairment

Key audit matter description	The Group recognises £1.05bn of goodwill (2020: £1.05bn) in relation to the previous acquisition of the Group by the parent company. The goodwill is entirely attributed to one cash generating unit (CGU), being Yorkshire Water Services (YWS), the principal operating company, and management calculates a value in use for YWS as a whole which it then attributes in part to the tangible and intangible assets of YWS, leaving the residual value in use amount to support the carrying value of goodwill. Management's value in use model contains several assumptions. Our key audit matter in relation to the impairment review is focussed to those assumptions to which the model is most sensitive, namely: • the WACC rate used in determining the discount rate applicable to for the future cash flows up to a period of 25 years; and • the infrastructure uplift multiple applied to the assets at the end of the 25 year cash flow period to derive a terminal value, which is taken as a proxy for in-use cash flows into perpetuity. The model is highly sensitive to changes in the WACC value used along with the terminal value assumptions. The Audit Committee also considered this as a significant issue. The assumptions used in the impairment review and the valuation of goodwill are disclosed in Note 2 to the financial statements. Further information around the impairment review and sensitivities in relation to impairment are disclosed in Note 10 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • obtained an understanding of the relevant controls surrounding the goodwill impairment review prepared by management; • assessed the value in use calculation prepared by management for mathematical accuracy, assessed the cash flows for completeness and tested the completeness and appropriateness of cash flow assumptions; • challenged the assumptions used in the value in use calculation, including the WACC used, the infrastructure uplift multiple and the future cash flows assumptions by benchmarking to available economic data; • involved our internal valuation specialists to challenge key assumptions used in the impairment review including the WACC rate, the infrastructure assets uplift and consideration of recent transactions in the market;

	• benchmarked the WACC rates to other businesses in the industry and publicly available data; • performed sensitivity analysis over the calculation to consider the potential impact of changes in the assumptions, and assessed management's sensitivities applied to the model; • evaluated potential contradictory evidence that might suggest a different position to that taken by management is more appropriate, including consideration of alternative models, discount rate used, WACC rates and valuation of the business; and • assessed the disclosures included in the accounts to assess whether they appropriately disclose the rationale for the impairment and the sensitivity of changes in the assumptions made.
Key observations	We considered management's assumptions in relation to the valuation of the impairment to be reasonable. We concur with the disclosures made by management around the impairment valuation and the sensitivity of the calculation.

5.2. Valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable

Key audit matter description	Valuation of household bad debt provisioning A proportion of the Group's household customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management make estimates regarding future cash collection when calculating the bad debt provision. Management's policy in calculating the provision is based on subsequent cash recovery of historical debtors In the current year, the impact of Covid-19 continues to cause uncertainty in the estimations made by management as the longer-term economic impact of the pandemic remains unknown. The value of the provision for trade receivables at 31 March 2021 is £27.5 million (2020: £30.6 million). Revenue recognition from customers where payment is not deemed probable During the year ended 31 March 2021, management also estimated which amounts (both billed and unbilled) relating to household customers were improbable of being paid at the point the related services were delivered. As a result of this estimate, billed and unbilled amounts totalling £25.3 million (2020: £19.3 million), relating to services delivered in the year, have not been recognised as revenue. This is included as an area of key estimation uncertainty in note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: Valuation of household bad debt provisioning • obtained an understanding of the relevant controls relating to the valuation of household bad debt provisioning and tested the relevant controls; • challenged the estimations made by management in calculating the household bad debt provision by comparing provisioning percentages to historical cash collection; • recalculated the bad debt provision based on the year end debtors balance and management's policy; • performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages applied; • evaluated potential contradictory evidence to assess management's conclusion regarding the provision;

	• performed an independent review of current economic data around unemployment to evaluate the continued impact of Covid-19 on customers' ability to pay their bills; and • performed benchmarking against other water companies with a similar provisioning approach. Revenue recognition from customers where payment is not deemed probable • obtained an understanding of the relevant controls relating to the recognition of revenue from customers where payment is not deemed probable; • challenged the inputs into the adjustment, to assess whether management's policy was appropriately applied and that only those customers who met the criteria above had included in the revenue adjustment; • performed sensitivity analysis on the estimations made by management, such as considering different time periods for the point revenue is not considered probable; and • assessed the revenue adjustment with the actual amount of debt that was written off in the year to establish whether trends appear consistent.
Key observations	We consider the overall bad debt provision and revenue recognition to be reasonable and compliant with accounting standards.

5.3. Valuation of infrastructure assets

Key audit matter description	At each year end management engage a third party to perform a valuation exercise to determine an enterprise value for the Company and after review and consideration, management use this as a basis to determine a fair value to be recorded in relation to the infrastructure assets of the Company. There is a significant level of judgement surrounding the fair value determination in respect of these assets. Infrastructure assets were held at a fair value at the year end date of £4,702.4m (2020: £4,376.7m). This is included as an area of key estimation uncertainty in note 2 to the financial statements. The value of the infrastructure assets and uplift of £217.0m recognised on these assets at the 2021 year end is disclosed in note 12 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows; • obtained an understanding of relevant controls relating to the asset revaluation process; • understood the scope of the valuation work and the key judgements made in the work performed by the third party, as well as evaluated their competence, capabilities and objectivity; • involved our internal valuation specialists to challenge the valuation made by the third party, through benchmarking the valuation against recent market transactions; • held discussions with management to understand the bridge between the third party's enterprise valuation and the amount to be applied to the infrastructure assets and the rationale for selecting the lower end of the range suggested by the third party; • evaluated potential contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators and market transaction valuations; and • evaluated that the uplift required has been accurately recorded in the accounts.

Key observations	We consider that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and that the fair value of the infrastructure assets recognised is appropriate.

5.4. Valuation of derivatives

Key audit matter description	IFRS 9 "Financial Instruments" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit, debit and funding valuation adjustments, as well as in relation to the designation, documentation and testing the effectiveness of hedge relationships. The fair value of derivative Financial instruments totalled £232.0m of assets and £2,343.9m of liabilities (restated 2020: £290.7m of assets and £2,258.2m of liabilities) and the fair value charges recognised in the income statement totalled £101.6m (2020: £40.2m). The valuation of derivatives is included as an area of key estimation uncertainty in note 2 to the financial statements. The movement in fair value of derivatives in the year is disclosed in note 19 and the fair value held at year end is disclosed in note 19 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • obtained an understanding of relevant controls around the valuation techniques used in determining the fair value of derivatives; • understood the nature and number of derivatives held at both the year end and during the year; • involved internal valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities; • enquired of the accounting for all derivative positions, both external to the Group and the intercompany arrangements, to assess whether they are in accordance with IFRS; and • inspected the accounting entries and disclosures made for the year end derivatives, to assess whether they are in line with IFRS 9 and observed industry practice.
Key observations	We consider that the fair values recognised and disclosures made in respect of the derivatives recorded in the financial statements are appropriate.

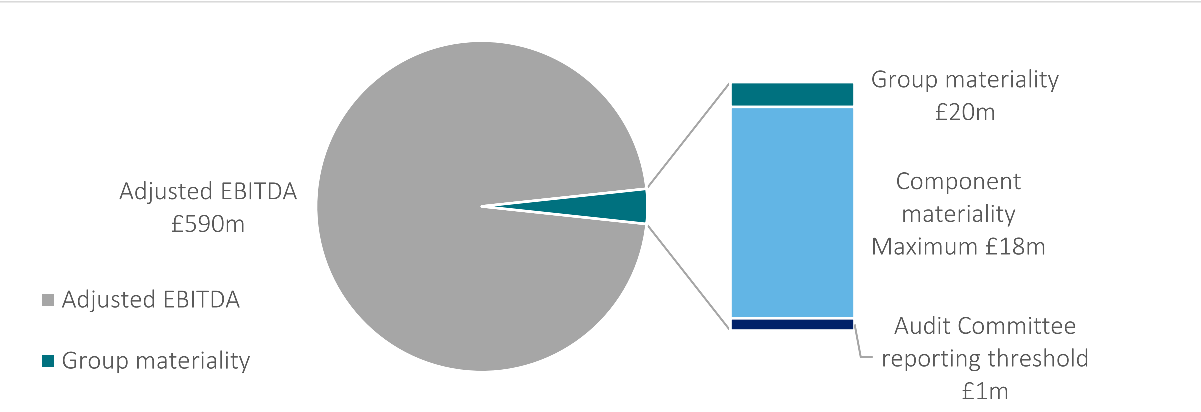
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20m (2020: £20m)	£8m (2020: £8m)

Basis for determining materiality	3.5% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA"). (2020: 3.5% of Adjusted EBITDA) This metric is reconciled within the Alternative Performance Measures outlined by the group.	Materiality represents 1.3% of net assets (2020: 1.5% of net assets)
Rationale for the benchmark applied	Adjusted EBITDA has been used in order to focus on the Group's underlying trading performance consistent with the Group's internal and external reporting. Adjusted EBITDA excludes expenses deemed exceptional.	The parent company does not trade or exist for profit generating purposes, so materiality has been determined using net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

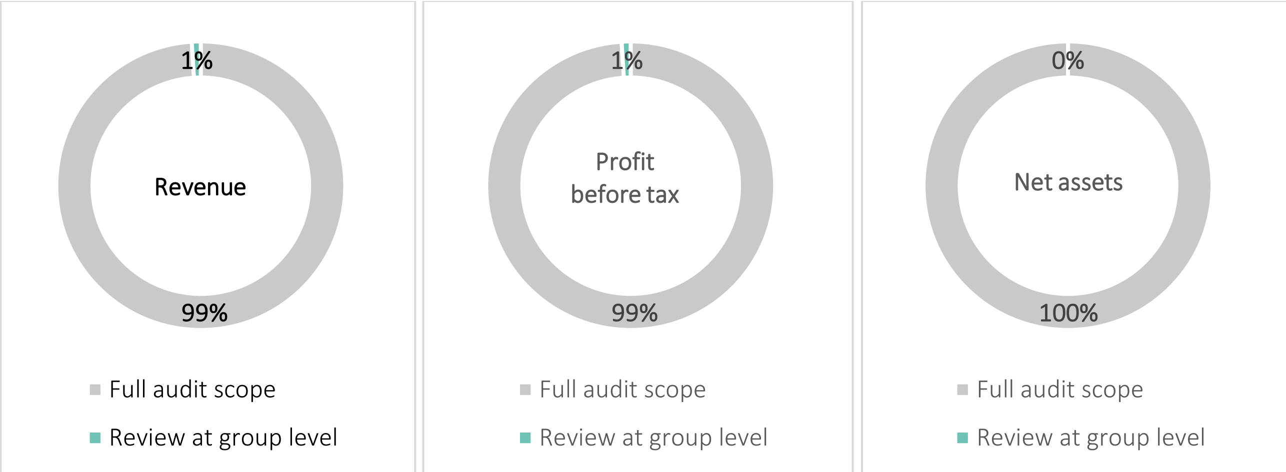
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1m (2020: £1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including key controls surrounding the financial reporting cycle and identified key audit matters, and assessing the risks of material misstatement to the group.

Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team and resulted in 99% to 100% of the group's net operating assets, profit before tax and Adjusted EBITDA being subject to audit testing (2020: 100%).



7.2. Our consideration of the control environment

As the group's recently implemented SAP system has been in place for the full year, we expanded our planned IT controls approach to assess this system for the year ended 31 March 2021. We have considered the key IT systems that were relevant to the audit to be the SAP system, which is the core IT system used for recording the financial transactions of the entity and "YORBill" and "YORCash" systems, which are used for billing and cash collection.

We have placed reliance on all three of these IT systems through our testing of the General IT controls ("GITCs") in place.

We involved our IT specialists to assess the relevant GITCs, performing sample and walkthrough testing of the controls. We have confirmed that the relevant controls have operated effectively throughout the audit period, and where deficiencies have been noted, appropriate mitigations have been identified. Mitigation testing has been performed and concluded effectively with regard to any findings for the SAP, YORBill and YORCash systems. This included verification that inappropriate activity has not been conducted on these systems and the risk of adverse effects on financial information has been addressed.

We planned to take controls reliance over the valuation and completeness of the household bad debt provision and the valuation of fixed assets additions. We have tested these relevant controls by understanding the relevant controls in place for each business process and testing a sample of controls during the year.

As a result of the above procedures we have placed reliance on the controls around the valuation and completeness of the household bad debt provision. We were unable to place reliance on the controls over fixed asset additions due to a lack of consistency in the documentation maintained by management to evidence the performance of monthly management review controls.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. 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.

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, IT, financial instruments and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- Valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.
We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.
In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.
In addition to the above, our procedures to respond to risks identified included the following:

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

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

Report on other legal and regulatory requirements

12. 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 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.

13.Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 60;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 60;
- the directors' statement on fair, balanced and understandable set out on page 61;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 55; and
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 46-51.

14.Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

15.Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept 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.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

16.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.

JBoardman.

Jane Boardman, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 July 2021

Kelda Eurobond Co Limited

Glossary

AGM	Annual general meeting
AMP	Asset Management Period: the five-year period over which our regulatory targets and budgets are set
APR	Annual Performance Report
ARFS	Annual report and Financial Statements
BAME	Black, Asian and minority ethnic
CCW	Consumer Council for Water
CEO	Chief Executive Officer
CMA	Competition & Markets Authority
CMEX	Customer Measure of Experience
CO2e	Carbon dioxide equivalent, is a standard unit for measuring carbon footprints
CPI	Consumer Price Index
CRI	Compliance Risk Index
DEFRA	Department for Environment, Food and Rural Affairs
DMEX	Developer Services Measure of Experience
DWMP	Drainage and Wastewater Management Plans
DMF	Decision Making Framework
EA	Environment Agency
EBITDA	Earnings before interest, tax and depreciation
EPA	Environmental Performance Assessment
ESG	Environmental, social and corporate governance
EU	European Union
FD	AMP7 Final Determination
GHG	Greenhouse gas
H&S	Health & Safety
HSSE	Health, Safety, Security & Environment
ICR	Interest cover ratio
IIRC	International Integrated Reporting Council
IoT	Internet of Things
KPI	Key performance indicator
Kt	Kilo tonnes
LTIR	Lost time injury rate
MIEx	Magnetic ion exchange
NGO	Non-governmental organisation
ODI	Outcome delivery incentive: financial reward/penalty from performance commitment results
PC	Performance commitment: AMP7 Ofwat measure for operational performance
PR	Price Review 2019 (relating to AMP7)/ 2024 (relating to AMP8)
RCF	Revolving Credit Facility
RCV	Regulatory capital value
RPI	Retail Price Index
SDGs	Sustainable development goals
SFF	Sustainable Finance Framework
UN	United Nations
WACC	Weighted Average Cost of Capital
WINEP	Water Industry National Environment Programme
WRMP	Water Resource Management plan
WWTW	Wastewater treatment works
YWLT	Yorkshire Water Leadership Team