Yorkshire Water Finance Plc

Annual Report and Financial Statements
Registered number 11444372
Year ended 31 March 2022

Contents

Directors and advisers

Directors

L N Shaw
C I Johns

Company secretary

K O H Smith

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Bankers

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

Strategic report

The directors present their strategic report on Yorkshire Water Finance Plc (the company) for the year ended 31 March 2022.

Principal activities and business review

The company is a wholly owned subsidiary of Kelda Holdings Limited group (Kelda group) and operates as part of the Kelda group's regulated water and wastewater business.

The principal activity of the company continues to be that of raising finance for use in the business of its immediate parent company, Yorkshire Water Services Limited (Yorkshire Water).

The Yorkshire Water Financing Group (YWFG) was established in 2009 when the Whole Business Securitisation (WBS) of Yorkshire Water and its subsidiaries was completed and provides a permanent and stable platform for the long-term financing of Yorkshire Water. The WBS created a ring-fence around the YWFG, now comprising Yorkshire Water, Yorkshire Water Services Holdings Limited, Yorkshire Water Services Finance Limited and the company.

On 20 April 2021, the company agreed terms for the issue of £350.0m of sustainability bonds with a tenor of 11.5 years and at 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.

For the year ended 31 March 2022 the company made a profit after taxation of £1,219,000 (2021: profit £1,447,000) primarily due to the partial reversal of the credit loss provision made in a prior year following the adoption of IFRS 9.

Performance and future outlook

During the year to 31 March 2022 the company focused on delivering excellent internal services and performed in line with management expectations.

It is anticipated that the company will continue to follow the same model for the foreseeable future.

Key performance indicators

Kelda group manages its operations on a divisional basis and the company directors do not believe that further key performance indicators for the company are necessary to enhance the understanding of the development, performance, or position of the business. The performance of the regulated water and wastewater business, which includes this company, is discussed in Kelda Holdings Limited's Annual Report and Financial Statements (which does not form part of this report).

Principal risks and uncertainties

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

Strategic report *(continued)*

Financial risk management

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

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

Any surplus funds or amounts required to be held in reserve are entirely invested in liquid short-term instruments with long-term ratings of at least A/A/A2 and/or short-term ratings of at least A1/F1/P1 with Standard & Poor's, Fitch, and Moody's respectively.

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

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) of s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2022. The company's principal activity is that of a financing company. The company has no employees, customers or suppliers, however it has business relationships with providers of finance and other companies within the Kelda group. Through their actions, the directors operate the company in a manner consistent with Kelda group's high standards of business conduct. The company's largest United Kingdom (UK) holding company is Kelda Eurobond Co Limited, a copy of whose s172(1) Statement can be found in its 2021/22 Annual Report and Financial Statements. This statement sets out how the group's decisions and policies affect employees, customers and other stakeholders, suppliers, and the impact of the group's operations on the community and the environment.

Approved by the Board and signed on its behalf by:

C I Johns
Director

27 July 2022

Directors' report

The directors present their Annual Report and the audited Financial Statements of the company for the year ended 31 March 2022.

Results

The company's result for the year was a profit after taxation of £1,219,000 (2021: profit £1,447,000). As at 31 March 2022, the company has a net liabilities position of £4,897,000 (2021: £6,116,000).

All outstanding intercompany loan receivable balances have been assessed for expected credit losses, which have been estimated based on a forward-looking economic assessment in line with the requirements of IFRS 9. The result for the year includes a reversal of intercompany loan receivable impairment of £1,141,000 (2021: impairment reversal of £1,350,000) and does not increase or decrease the net debt position of the Kelda group as a whole.

Proposed dividend

The directors do not recommend the payment of a dividend (2021: £nil).

Future developments

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

Financial risk management

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

Directors

The directors listed below have served the company throughout the year and up to the date of approval of the Financial Statements, unless otherwise stated:

E M Barber (resigned 6 May 2022)
L N Shaw (appointed 9 May 2022)
C I Johns

Directors' report *(continued)*

Going concern

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

The directors believe that preparing the Financial Statements on the going concern basis is appropriate given the interdependencies between the company and its parent, Yorkshire Water. The company is a financing company with the principal activity of raising debt for use in the business of Yorkshire Water. Under the terms of the company's financing arrangement, Yorkshire Water guarantees all the company's borrowings and derivatives, therefore whilst Yorkshire Water continues in operation, this group company is able to ensure that all financing obligations are met. As part of determining if the going concern assumption is appropriate for this company, the directors have challenged and scrutinised the ability of Yorkshire Water to continue as a going concern including a review of severe but reasonably possible scenarios.

Yorkshire Water had available a combination of cash and committed undrawn facilities totalling £691.5m at 31 March 2022 (2021: £658.7m), comprising £663.0m (2021: £460.8m) undrawn committed facilities and £28.5m (2021: £197.9m) of cash and cash equivalents. The directors have considered the business plan and the cash position of Yorkshire Water, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the 12 months from the date of signing these Financial Statements. In addition, Yorkshire Water has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period.

The directors believe that there are no material uncertainties that could cast significant doubt over the ability of Yorkshire Water to continue as a going concern, and therefore in turn the ability of the company to continue as a going concern. The directors have adopted the going concern basis of accounting in preparing the Financial Statements.

Directors' indemnities

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

Disclosure of information to independent auditor

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

Independent auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Directors' report *(continued)*

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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

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

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

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

Directors' report *(continued)*

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with UK Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and Financial Statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 27 July 2022 and is signed on its behalf by:

C I Johns
Director

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

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of Yorkshire Water Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

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

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

2. Basis for opinion for opinion

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

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

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

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Recoverability of receivables from group undertakings. Within this report, key audit matters are identified as follows: Similar level of risk <>
Materiality	The materiality that we used in the current year was £10.4m which represents approximately 0.2% of total assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach in the year.

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 company's ability to continue to adopt the going concern basis of accounting included:

- understanding financing facilities including compliance with interest cover ratio covenants and obtaining confirmation of undrawn facilities;
- understanding how the going concern model mirrors the business model and the forecasts used for impairment testing;
- understanding the interdependence between Yorkshire Water Finance plc and the wider Kelda Holdings Limited group in terms of the going concern basis of accounting;
- testing the accuracy of the model and assessing the historical accuracy of forecasts prepared by management;
- challenging the key assumptions used in the forecasts, such as revenue levels and capital expenditure, including giving consideration to the current and forecast economic environment with high inflation and low levels of unemployment in the UK;
- assessing the maturity profile of the company's debt and the available liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including latest third party economic forecasts and FY23 results to date; and
- assessing the appropriateness of the going concern disclosures made in the financial statements.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

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 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.

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. Recoverability of receivables from Group undertakings <>

Key audit matter description	Yorkshire Water Finance plc is part of the Kelda Holdings Limited Group (the "Group"). Receivables from Group undertakings are stated in the balance sheet at £4,379m (2021: £4,246m). There is judgement involved in determining the recoverability of these receivables from Group undertakings based on the financial position and future prospects of the entities which Yorkshire Water Finance plc has loaned amounts to. The assessment of recoverability takes into consideration a range of factors such as the trading performance of the Group, the ability of the Group to secure financing and the Group's ability to respond to changing demands of the regulated market. For further details of the amounts receivable from group companies please see note 9 of the Financial Statements and note 1 for the accounting policies in relation to intercompany loans.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the appropriateness of the carrying value through understanding the forecast trading performance of the Group in order to assess the ability of the Group undertakings to repay the receivable amounts. This included an assessment of the valuation of the infrastructure assets held by Yorkshire Water Services which ultimately support the future trading performance and cash flow of the Group. We assessed management's assessment of the recoverability of receivables from group undertakings by assessing the underlying net asset position of the counterparty and the availability and liquidity of those assets. We have then re-performed the analysis to consider any debtors that may prima facie appear to be impaired. We assessed the historical accuracy of the Group's forecasts by comparing the actual results of previous periods to original forecasts.
Key observations	Based on the work performed we concluded that receivables from Group undertakings were appropriately stated.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

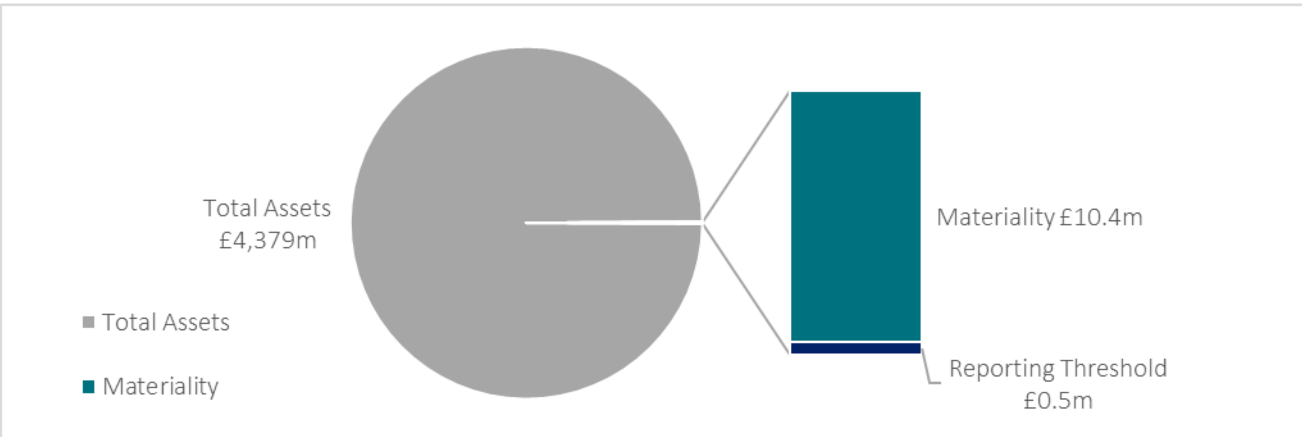
6. Our application of materiality application of materiality

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:

Materiality	£10.4m (2021: £8m)
Basis for determining materiality	In determining materiality we considered the primary purpose of the Company is to provide financing to Yorkshire Water Services Limited. Accordingly the company's balance sheet strength is considered to be the key financial metric of relevance to the users of the Financial Statements. We have therefore used total assets as the benchmark. Using a percentage of 2% results in a materiality of £87.6m (2021: 1% resulting in a materiality of £42.5m) with the increased percentage deemed more appropriate. However, the company is also a component of the consolidated Financial Statements of Kelda Holdings Limited. As required by ISAs (UK), the component materiality applied to the company was determined as £10.4m (2021: £8m), an amount lower than the materiality applied to the consolidated Financial Statements as a whole. Moreover, in both the current year and prior year, all work for the statutory audit of the company was also performed at this materiality. As such, the materiality applied in the audit of the Financial Statements for the company was £10.4m, which equates to approximately 0.2% of total 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. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over the General IT controls ("GITCs") within the SAP system;
- our consideration of the impact of hybrid working on the control environment; 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 directors that we would report to the directors all audit differences in excess of £0.5m (2021: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including key controls surrounding the financial reporting cycle and identified key audit matter, and assessing the risks of material misstatement to the company. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment consideration of the control environment

Our planned IT controls are in line with previous years given the maturity of the SAP system. We have considered the key IT system 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.

We have placed reliance on this IT system 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 tested whether 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 with regard to any findings for the SAP system. This included assessing whether activity that has been conducted on these systems was appropriate and assessing whether the risk of adverse effects on financial information has been addressed.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements. We have held discussions with the group's sustainability and finance team to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the financial statements. Whilst management have acknowledged the risks posed by climate change, they have assessed that there is no quantitively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

The group has committed to being net zero by 2030 with a developed strategy in how this is to be achieved. Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the group. Management have concluded that the key risks of climate change for the business arise from drought, flooding and transitioning the business to net zero.

We performed our own qualitative risk assessment of the potential impact of climate change on the Company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters.

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

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

10. Auditor's responsibilities for the audit of the Financial Statements 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 company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company'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 directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company'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 financial instruments and industry specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. 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 company 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 company'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 did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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 directors 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:

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

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

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

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

13.1. 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. 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.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the directors we were appointed by the Board of directors on 17 December 2018 to audit the Financial Statements of the Company for the year ending 31 March 2019 and subsequent financial periods.

Our total uninterrupted period of engagement is 4 years, covering the period from our appointment through to the year ending 31 March 2019 to 31 March 2022.

14.2. Consistency of the audit report with the additional report to the Board of directors

Our audit opinion is consistent with the additional report to the Board of directors we are required to provide in accordance with ISAs (UK).

Independent auditor's report to the members of Yorkshire Water Finance Plc *(continued)*

15. Use of our report

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

J Boardman.

Jane Boardman, FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

27 July 2022

Profit and loss account

for the year ended 31 March 2022

	Note	**2022**	2021
		£'000	£'000
Reversal of impairment of intercompany receivables		**1,141**	1,350
Interest receivable and similar income	*6*	**127,700**	91,111
Interest payable and similar expenses	*7*	**(127,592)**	(90,984)
Profit before taxation		**1,249**	1,477
Taxation	*8*	**(30)**	(30)
Profit for the financial year		**1,219**	1,447

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

Balance sheet
as at 31 March 2022

	Note	**2022**	2021
		£'000	£'000
Fixed assets			
Non-current debtors	*9*	**3,890,497**	4,023,049
Current assets			
Current debtors	*9*	**488,485**	222,711
Cash and cash equivalents		**464**	347
		488,949	223,058
Creditors: amounts falling due within one year	*10*	**(490,331)**	(224,550)
Net current liabilities		**(1,382)**	(1,492)
Total assets less current liabilities		**3,889,115**	4,021,557
Creditors: amounts falling due after more than one year	*11*	**(3,894,012)**	(4,027,673)
Net liabilities		**(4,897)**	(6,116)
Capital and reserves			
Called up share capital	*13*	**50**	50
Share premium account	*13*	**2,180**	2,180
Profit and loss account	*13*	**(7,127)**	(8,346)
Shareholder's deficit		**(4,897)**	(6,116)

These Financial Statements on pages 18 to 36 were approved by the Board of directors and authorised for issue on 27 July 2022 and were signed on its behalf by:

C I Johns
Director

Company registered number: 11444372

Statement of changes in equity
for the year ended 31 March 2022

	Called up share capital £'000	**Share premium account £'000**	**Profit and loss account £'000**	**Total shareholder's deficit £'000**
Balance at 1 April 2021	50	2,180	(8,346)	(6,116)
Total comprehensive income for the year				
Profit for the year	-	-	1,219	1,219
Total comprehensive income for the year	-	-	1,219	1,219
Balance at 31 March 2022	**50**	**2,180**	**(7,127)**	**(4,897)**

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholder's deficit £'000
Balance on incorporation at 1 April 2020	50	2,180	(9,793)	(7,563)
Total comprehensive income for year				
Profit for the year	-	-	1,447	1,447
Total comprehensive income for the year	-	-	1,447	1,447
Balance at 31 March 2021	50	2,180	(8,346)	(6,116)

Notes to the Financial Statements

1 Accounting policies

The company is a public company limited by shares, incorporated in the UK under the Companies Act 2006, registered in England and Wales, and resident for tax in the UK.

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

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 as applicable to companies using FRS 101. The presentation currency of these Financial Statements is £ sterling.

In preparing these Financial Statements, the company applies the recognition, measurement, and disclosure requirements of IFRS as issued by the IASB but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these Financial Statements, the company, as a qualifying entity, has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements. No new accounting standards, that are effective for the year ended 31 March 2022, have had a material impact on the company.

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

Measurement convention

The Financial Statements have been prepared on the historical cost basis of accounting except for certain categories of financial assets and liabilities which have been measured at fair value.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Going concern

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

The directors believe that preparing the Financial Statements on the going concern basis is appropriate given the interdependencies between the company and its parent, Yorkshire Water. The company is a financing company with the principal activity of raising debt for use in the business of Yorkshire Water. Under the terms of the company's financing arrangement, Yorkshire Water guarantees all the company's borrowings and derivatives, therefore whilst Yorkshire Water continues in operation, this group company is able to ensure that all financing obligations are met. As part of determining if the going concern assumption is appropriate for this company, the directors have challenged and scrutinised the ability of Yorkshire Water to continue as a going concern including a review of severe but reasonably possible scenarios.

Yorkshire Water had available a combination of cash and committed undrawn facilities totalling £691.5m at 31 March 2022 (2021: £658.7m), comprising £663.0m (2021: £460.8m) undrawn committed facilities and £28.5m (2021: £197.9m) of cash and cash equivalents. The directors have considered the business plan and the cash position of Yorkshire Water, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the 12 months from the date of signing these Financial Statements. In addition, Yorkshire Water has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period.

The directors believe that there are no material uncertainties that could cast significant doubt over the ability of Yorkshire Water to continue as a going concern, and therefore in turn the ability of the company to continue as a going concern. The directors have adopted the going concern basis of accounting in preparing the Financial Statements.

Classification of financial instruments issued by the company

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

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Non-derivative financial instruments

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

Other debtors

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

Other creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

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

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

Fair value estimation

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

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

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

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Impairment

Financial assets (including intercompany and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

Interest receivable and interest payable

Interest income and interest payable is recognised in profit or loss as the interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to its net carrying amount.

Taxation

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

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

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

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

Notes to the Financial Statements *(continued)*

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 Expenses and auditor's remuneration

Auditor's remuneration of £6,000 (2021: £6,000) has been borne by Yorkshire Water in relation to the audit of these Financial Statements. Profit before taxation includes a reversal of impairment of intercompany receivables of £1,141,000 (2021: impairment reversal £1,350,000).

4 Staff numbers and costs

The company did not have any employees during the year ended 31 March 2022 (2021: nil).

5 Directors' remuneration

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2021: £nil).

6 Interest receivable and similar income

	2022	2021
	£'000	£'000
Interest income from group undertakings	**185,344**	144,462
Amortisation of fair value on transfer of debt	**3,265**	3,129
Movement in fair value of intercompany loans	**(60,909)**	(56,480)
Total interest receivable and similar income	**127,700**	91,111

Interest receivable and similar income includes net income and fair value movements from group undertakings of £127,700,000 (2021: £91,111,000).

Notes to the Financial Statements *(continued)*

7 Interest payable and similar expenses

	2022	2021
	£'000	£'000
RPI uplift on inflation linked bonds and private notes	**44,574**	9,267
Amortisation of issue costs	**2,497**	1,899
Interest payable on fixed rate US dollar private notes	**8,860**	10,440
Interest payable on fixed rate sterling bonds and private notes	**111,560**	105,824
Interest payable on inflation linked sterling bonds and private notes	**19,025**	18,036
Interest payable on fixed rate Australian dollar bonds	**1,986**	1,986
Movement in fair value of fixed rate US dollar private notes	**(24,093)**	(37,825)
Movement in fair value of fixed rate sterling bonds and private notes	**(36,430)**	(20,841)
Movement in fair value of fixed rate Australian dollar bonds	**(387)**	2,186
Other charges	**-**	12
Total interest payable and similar expenses	**127,592**	90,984

Total interest payable and similar expenses include £nil payable to group undertakings (2021: £nil).

US dollar private notes, Australian dollar bonds, and certain sterling bonds and private notes are designated as fair value through profit and loss. As the monies raised through these bonds and private notes are lent on to Yorkshire Water, which has a combination of interest rate and combined cross-currency interest rate swaps to hedge the fair value of the fixed rate bonds and private notes, the related intercompany loan is also nominated as fair value through the profit and loss account.

8 Taxation

Total tax charge recognised in the profit and loss account:

	2022	2021
	£'000	£'000
Current tax		
Current tax charge on income for the year	**30**	30
Tax on profit	**30**	30

The Provisional Collection of Taxes Act, enacted on 17 March 2020, set the corporation tax rate at 19% from 1 April 2020, the rate which has been used in preparing these Financial Statements.

The Finance Bill 2021 introduced an increase to the main rate of corporation tax to 25% from April 2023. As the company has no deferred tax balances, there would be no impact as a result of the future rate change.

The company has no unrecognised deferred tax assets in the current or prior year.

Notes to the Financial Statements *(continued)*

8 Taxation *(continued)*

The tax on profit is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

Reconciliation of effective tax rate

	2022	2021
	£'000	£'000
Profit before taxation	**1,249**	1,477
Tax using the UK corporation tax rate of 19% (2021: 19%)	**237**	281
Effects of:		
Income not taxable	**(207)**	(251)
Total tax charge included in the profit and loss account	**30**	30

9 Debtors

	2022	2021
	£'000	£'000
Amounts owed by parent company	**4,386,520**	4,254,439
Expected credit loss provision	**(7,538)**	(8,679)
	4,378,982	4,245,760
Analysed as:		
Current debtors - due within one year	**488,485**	222,711
Non-current debtors - due after more than one year	**3,890,497**	4,023,049
	4,378,982	4,245,760

Amounts owed by parent company include loans to Yorkshire Water which are unsecured, bear interest at varying nominal rates and have contractual repayment dates, together with accrued interest. The interest rates and repayment dates of these loans match the terms of the underlying debt disclosed in note 12.

Notes to the Financial Statements *(continued)*

10 Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Interest-bearing loans and borrowings (note 12)	**432,159**	168,737
Interest payable accruals	**58,157**	55,798
Corporation tax	**15**	15
	490,331	224,550

The company maintains a debt service reserve liquidity facility (DSR) that has been made available to members of the YWFG. As at 31 March 2022 the facility was £170.0m (2021: £145.8m) of which £nil amounts were drawn (2021: £nil). Until 24 March 2022, the facility was provided by a syndicate of banks and was renewable annually. From 25 March 2022, the facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis. On 25 March 2022, £22.1m and £2.2m was released respectively from restricted Class A and Class B debt service reserve bank accounts. As at 31 March 2022, £nil (2021: £22.1m) was standing to the credit of Class A debt service reserve bank accounts and £nil (2021: £2.2m) to the credit of the Class B debt service reserve bank accounts.

11 Creditors: amounts falling due after more than one year

	2022	2021
	£'000	£'000
Interest-bearing loans and borrowings (note 12)	**3,894,012**	4,027,673

Included within interest-bearing loans and borrowings are amounts repayable after five years by instalments and otherwise than by instalments of £88,242,000 (2021: £85,390,000) and £3,340,686,000 (2021: £3,328,109,000) respectively. Borrowings are secured against the assets of the YWFG.

Notes to the Financial Statements *(continued)*

12 Interest-bearing loans and borrowings

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

	2022 £'000	2021 £'000
Creditors: amounts falling due after more than one year		
Interest-bearing loans and borrowings	**3,894,012**	4,027,673
Creditors: amounts falling due within one year		
Interest-bearing loans and borrowings	**432,159**	168,737
	4,326,171	4,196,410

Terms and debt repayment schedule	**Currency**	**Nominal interest rate**	**Maturity date**	**Nominal value 2022**	**Carrying amount 2022 £'000**	Nominal value 2021	Carrying amount 2021 £'000
Guaranteed private notes [b]	**USD**	**3.770%**	**2021**	**$115m**	**-**	$115m	84,332
Guaranteed private notes [b]	**USD**	**3.770%**	**2022**	**$40m**	**-**	$40m	29,368
Guaranteed private notes [b]	**USD**	**5.070%**	**2022**	**$75m**	**-**	$75m	55,037
Guaranteed private notes [b]	**USD**	**3.870%**	**2023**	**$150m**	**114,143**	$150m	113,856
Guaranteed bonds [a]	**AUD**	**5.875%**	**2023**	**$50m**	**29,325**	$50m	29,676
Guaranteed bonds (Exchange bonds) [a]	**GBP**	**6.588%**	**2023**	**£210.7m**	**223,617**	£210.7m	238,201
Guaranteed private notes [b]	**USD**	**3.870%**	**2024**	**$30m**	**22,814**	$30m	22,786
Guaranteed bonds [a]	**GBP**	**1.750%**	**2026**	**£300m**	**298,802**	£300m	298,566
Guaranteed bonds (Exchange bonds) [a]	**GBP**	**6.454%**	**2027**	**£135.5m**	**161,373**	£135.5m	166,038
Guaranteed private notes [b]	**GBP**	**2.030%**	**2028**	**£60m**	**57,297**	£60m	56,899
Guaranteed bonds [a]	**GBP**	**3.625%**	**2029**	**£250m**	**245,460**	£250m	264,913
Guaranteed private notes [b]	**GBP**	**3.540%**	**2029**	**£90m**	**94,129**	£90m	102,353
Guaranteed private notes [b]	**GBP**	**2.140%**	**2031**	**£50m**	**46,549**	£50m	46,226
Guaranteed bonds (Exchange bonds) [a]	**GBP**	**6.601%**	**2031**	**£255m**	**333,210**	£255m	340,807
Guaranteed bonds [a]	**GBP**	**1.750%**	**2032**	**£350m**	**344,651**	-	**-**
Guaranteed bonds [a]	**GBP**	**4.965%**	**2033**	**£90m**	**96,808**	£90m	105,281
Guaranteed private notes [b]	**GBP**	**2.210%**	**2033**	**£50m**	**45,895**	£50m	45,591
Carried forward					**2,114,073**		1,999,930

Notes to the Financial Statements *(continued)*

12 Interest-bearing loans and borrowings *(continued)*

Terms and debt repayment schedule	**Currency**	**Nominal interest rate**	**Maturity date**	**Nominal value 2022**	**Carrying amount 2022 £'000**	Nominal value 2021	Carrying amount 2021 £'000
Brought forward					**2,114,073**		1,999,930
Inflation linked guaranteed bonds (Exchange bonds) [a]	**GBP**	**3.307%**	**2033**	**£127.8m**	**259,113**	£127.8m	258,652
Guaranteed private notes [b]	**GBP**	**2.300%**	**2036**	**£40m**	**36,097**	£40m	35,881
Guaranteed private notes [b]	**GBP**	**2.300%**	**2036**	**£50m**	**45,121**	£50m	44,851
Guaranteed bonds [c]	**GBP**	**6.375%**	**2039**	**£300m**	**428,322**	£300m	434,173
Inflation linked guaranteed bonds [a]	**GBP**	**2.718%**	**2039**	**£260m**	**602,229**	£260m	586,342
Guaranteed bonds [a]	**GBP**	**2.750%**	**2041**	**£450m**	**444,919**	£450m	444,877
Inflation linked guaranteed private notes	**GBP**	**2.160%**	**2041**	**£50m**	**99,513**	£50m	96,660
Inflation linked guaranteed bonds [a 1]	**GBP**	**1.803%**	**2042**	**£50m**	**88,242**	£50m	85,390
Guaranteed bonds [c 2]	**GBP**	**3.750%**	**2046**	**£200m**	**208,542**	£200m	209,654
					4,326,171		4,196,410

[1] Amortising - repayments commencing 2032

[2] Associated step up and call date in March 2023. The company has signed a deed poll, which is an enforceable and legally binding pledge, to exercise its optional redemption right on the underlying bond prior to the end of the fixed rate period (22 March 2023).

[a] Quoted on the London stock exchange

[b] Quoted on the International stock exchange

[c] Quoted on the London and Frankfurt stock exchanges

Notes to the Financial Statements *(continued)*

13 Capital and reserves

Called up share capital	**2022**	2021
	£'000	£'000
Allotted, called up and fully paid		
50,001 ordinary shares at £1 each	**50**	50

The profit and loss account represents cumulative profits or losses.

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

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

The company did not pay any dividends during the year or the prior year.

14 Financial instruments

(a) Fair values of financial instruments

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

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

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

Notes to the Financial Statements *(continued)*

14 Financial instruments *(continued)*

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

	Carrying value 2022 £'000	**Fair value 2022 £'000**	**Level 1 2022 £'000**	**Level 2 2022 £'000**	Carrying value 2021 £'000	Fair value 2021 £'000	Level 1 2021 £'000	Level 2 2021 £'000
Financial liabilities designated as fair value through profit or loss								
3.770% $115m private notes 2021	-	-	-	-	84,332	84,332	-	84,332
3.770% $40m private notes 2022	-	-	-	-	29,368	29,368	-	29,368
5.070% $75m private notes 2022	-	-	-	-	55,037	55,037	-	55,037
3.870% $150m private notes 2023	**114,143**	**114,143**	-	**114,143**	113,856	113,856	-	113,856
5.875% AUD$50m bonds 2023	**29,325**	**29,325**	-	**29,325**	29,676	29,676	-	29,676
3.870% $30m private notes 2024	**22,814**	**22,814**	-	**22,814**	22,786	22,786	-	22,786
3.540% £90m private notes 2029	**94,129**	**94,129**	-	**94,129**	102,353	102,353	-	102,353
3.625% £250m bonds 2029	**245,460**	**245,460**	-	**245,460**	264,913	264,913	-	264,913
4.965% £90m bonds 2033	**96,808**	**96,808**	-	**96,808**	105,281	105,281	-	105,281
Total financial liabilities measured at fair value through profit or loss	**602,679**	**602,679**	-	**602,679**	807,602	807,602	-	807,602
Financial liabilities measured at amortised cost								
6.588% 210.7m bonds 2023	**223,617**	**219,255**	**219,255**	-	238,201	233,734	233,734	-
1.750% £300m bonds 2026	**298,802**	**291,729**	**291,729**	-	298,566	307,611	307,611	-
6.454% £135.5m bonds 2027	**161,373**	**160,232**	**160,232**	-	166,038	172,943	172,943	-
2.030% £60m private notes 2028	**57,297**	**58,650**	-	**58,650**	56,899	61,540	-	61,540
2.140% £50m private notes 2031	**46,549**	**47,775**	-	**47,775**	46,226	51,182	-	51,182
6.601% £255m bonds 2031	**333,210**	**334,026**	**334,026**	-	340,807	365,696	365,696	-
1.750% £350m bonds 2032	**344,651**	**319,228**	**319,228**	-	-	-	-	-
3.307% £127.8m inflation linked bonds 2033	**259,113**	**196,476**	-	**196,476**	258,652	201,147	-	201,147
2.210% £50m private notes 2033	**45,895**	**47,336**	-	**47,336**	45,591	51,418	-	51,418
2.300% £40m private notes 2036	**36,097**	**37,330**	-	**37,330**	35,881	41,496	-	41,496
2.300% £50m private notes 2036	**45,121**	**46,662**	-	**46,662**	44,851	51,871	-	51,871
2.718% £260m inflation linked bonds 2039	**602,229**	**445,341**	**445,341**	-	586,342	459,017	459,017	-
6.375% £300m bonds 2039	**428,322**	**444,903**	**444,903**	-	434,173	495,819	495,819	-
2.160% £50m inflation linked private notes 2041	**99,513**	**107,816**	-	**107,816**	96,660	92,846	-	92,846
2.750% £450m bonds 2041	**444,919**	**433,017**	**433,017**	-	444,877	482,998	482,998	-
1.803% £50m inflation linked bonds 2042	**88,242**	**70,949**	-	**70,949**	85,390	72,435	-	72,435
3.750% £200m bonds 2046	**208,542**	**202,200**	**202,200**	-	209,654	207,186	207,186	-
Total financial liabilities measured at amortised cost	**3,723,492**	**3,462,925**	**2,849,931**	**612,994**	3,388,808	3,348,939	2,725,004	623,935
Total financial instruments	**4,326,171**	**4,065,604**	**2,849,931**	**1,215,673**	4,196,410	4,156,541	2,725,004	1,431,537

Notes to the Financial Statements *(continued)*

14 Financial instruments *(continued)*

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

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

Class of financial instruments measured at fair value	**Valuation technique**
Bonds and private notes	The fair values of the bonds have been determined by reference to quoted prices for identical instruments that the company can access at the measurement date. The fair values of private notes have been calculated by discounting expected future cash flows using prevailing rates including credit spreads observed in publicly traded instruments.
Financial instruments not measured at fair value	
Bonds and private notes	The fair values of the bonds have been determined by reference to quoted prices for identical instruments that the company can access at the measurement date. The fair values of private notes have been calculated by discounting expected future cash flows using prevailing rates including credit spreads observed in publicly traded instruments.

(b) Credit risk

Financial risk management

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

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

(c) Liquidity risk

Financial risk management

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

Liquidity is managed at Kelda group level by ensuring debt is held 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.

Notes to the Financial Statements *(continued)*

14 Financial instruments *(continued)*

(c) Liquidity risk *(continued)*

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

	2022						2021					
	Carrying amount	**Contract-ual cash flows**	**1 year or less**	**1 to <2years**	**2 to <5years**	**5years and over**	Carrying amount	Contract-ual cash flows	1 year or less	1 to <2years	2 to <5years	5years and over
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities												
Fixed rate sterling bonds and private notes held at fair value	**436,397**	**573,557**	**16,720**	**15,127**	**51,754**	**489,956**	472,547	590,254	16,720	16,720	50,161	506,653
Fixed rate sterling bonds and private notes held at amortised cost	**2,674,395**	**3,436,499**	**505,984**	**73,913**	**521,738**	**2,334,864**	2,361,764	3,108,291	89,167	499,859	203,363	2,315,902
Fixed rate US dollar private notes held at fair value	**136,957**	**146,631**	**5,301**	**141,330**	**-**	**-**	305,379	317,094	177,521	5,045	134,528	-
Fixed rate AU dollar bonds held at fair value	**29,325**	**30,299**	**1,675**	**28,624**	**-**	**-**	29,676	30,936	1,621	1,621	27,694	-
Inflation linked sterling bonds and private notes held at amortised cost	**1,049,097**	**1,015,584**	**19,226**	**19,226**	**57,677**	**919,455**	1,027,044	969,019	18,044	18,044	54,133	878,798
	4,326,171	**5,202,570**	**548,906**	**278,220**	**631,169**	**3,744,275**	4,196,410	5,015,594	303,073	541,289	469,879	3,701,353

Notes to the Financial Statements *(continued)*

14 Financial instruments *(continued)*

(d) Market risk

Financial risk management

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

The company is exposed to foreign exchange risk arising from the issue of US and Australian debt. This debt is lent on to Yorkshire Water with the same coupon and maturity dates. Any foreign exchange exposure is therefore eliminated against an equal and opposite exposure on debtors.

Market risk - Interest rate risk

Profile

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

	2022	2021
	£'000	£'000
Fixed rate instruments		
Financial liabilities	**3,277,074**	3,169,366
Variable rate instruments		
Financial liabilities	**1,049,097**	1,027,044

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

Sensitivity analysis

The proceeds of bonds issuances have been lent on to Yorkshire Water under the same terms. Any interest rate risk exposure is therefore eliminated against an equal and opposite exposure on debtors.

(e) Capital management

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

When monitoring capital risk, the YWFG considers interest cover measures and gearing, expressed as the ratio of net debt to RCV of Yorkshire Water.

Any surplus funds or amounts required to be held in reserve are entirely invested in liquid short-term instruments with long-term ratings of at least A/A/A2 and/or short-term ratings of at least A1/F1/P1 with Standard & Poor's, Fitch, and Moody's respectively.

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

Notes to the Financial Statements *(continued)*

15 Contingent liabilities

The company, as part of the YWFG, has guaranteed borrowings of Yorkshire Water and Yorkshire Water Services Finance Limited, which at 31 March 2022 amounted to £1,692.4m (2021: £1,931.3m).

16 Ultimate parent company and ultimate controlling party

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

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